

**COST ACCOUNTING POLICIES AND
PROCEDURES MANUAL
of the
CALIFORNIA UNIFORM PUBLIC CONSTRUCTION
COST ACCOUNTING COMMISSION**

STATE OF CALIFORNIA



STATE CONTROLLER

DIVISION OF ACCOUNTING AND REPORTING

**CALIFORNIA UNIFORM PUBLIC CONSTRUCTION
COST ACCOUNTING COMMISSION**

**COST ACCOUNTING POLICIES AND
PROCEDURES MANUAL**

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PART I

**INFORMATION FOR ADOPTION
AND IMPLEMENTATION
OF THE
CALIFORNIA UNIFORM PUBLIC
CONSTRUCTION COST ACCOUNTING ACT**

**Instructions for Adoption and Implementation
of the Uniform Construction Cost Accounting Procedures
by Local Agencies**

- (1) The Governing Board must elect by resolution to become subject to the uniform construction cost accounting procedures promulgated by the Controller pursuant to Public Contract Code Section 22019. The resolution shall specify that the local agency will meet the requirements prescribed in the California Uniform Public Construction Cost Accounting Commission's *Cost Accounting Policies and Procedures Manual* and state the effective date the agency will implement the accounting and bidding procedures.
- (2) The Local Agency must notify the Controller in writing of the election to become subject to the uniform construction cost accounting procedures. A copy of the resolution shall also be filed with the Controller. Send it to: Office of State Controller, Division of Accounting and Reporting, Accounting Policies Section, P.O. Box 942850, Sacramento, CA 94250-5875.
- (3) When a local agency elects to become subject to the uniform construction cost accounting procedures, the entire entity is considered subject to the Act and no departments will be exempt. However, Special Districts which are governed by a board of supervisors or city council are subject only if a separate election is made.
- (4) An informal bidding ordinance shall be enacted pursuant to Public Contract Code Section 22034.
- (5) The governing board may discontinue the agency's participation under the uniform construction cost accounting procedures by adopting a resolution stating this fact. A copy of the resolution shall be filed with the Controller.
- (6) The Controller shall notify the Commission of all local agencies electing to become subject to the uniform construction cost accounting procedures. In addition, the Commission shall also be notified of local agencies electing to discontinue participation under these procedures.

SAMPLE ELECTION RESOLUTION
(MODEL)

RESOLUTION OF THE COUNCIL OF THE CITY¹ OF _____
COUNTY OF _____, STATE OF CALIFORNIA

IN THE MATTER OF: UNIFORM PUBLIC CONSTRUCTION COST ACCOUNTING PROCEDURES

No. _____

I, _____, City Clerk of the City of _____, County of _____, State of California, do hereby certify that the following resolution, proposed by Councilmember _____, and seconded by Councilmember _____, was duly passed and adopted by the Council of the City of _____ at a regular meeting thereof assembled this _____ day of _____, _____, by the following vote, to wit:

AYES: Councilmember:

NOES: Councilmember:

ABSENT: Councilmember:

(SEAL)

_____, City Clerk
City of _____

THE CITY COUNCIL OF THE CITY OF _____ DOES HEREBY RESOLVE AS FOLLOWS:

WHEREAS, prior to the passage of Assembly Bill No. 1666, Chap. 1054, Stats. 1983, which added Chapter 2, commencing with Section 22000, to Part 3 of Division 2 of the Public Contract Code, existing law did not provide a uniform cost accounting standard for construction work performed or contracted by local public agencies; and

WHEREAS, Public Contract Code Section 22000 et seq., the Uniform Public Construction Cost Accounting Act, establishes such a uniform cost accounting standard;

WHEREAS, the Commission established under the Act has developed uniform public construction cost accounting procedures for implementation by local public agencies in the performance of or in the contracting for construction of public projects; and

¹This SAMPLE ELECTION RESOLUTION indicates election by a city council. However, the sample format can be used by any public agency governing body.

NOW, THEREFORE, the City Council of the City of _____, California, hereby elects under Public Contract Code Section 22030 to become subject to the uniform public construction cost accounting procedures set forth in the Act and to the Commission's policies and procedures manual and cost accounting review procedures, as they may each from time to time be amended, and directs that the City Clerk notify the State Controller forthwith of this election.

This Resolution shall take effect upon its adoption.

PASSED AND ADOPTED this ____ day of _____, ____.

_____, Mayor
City of _____

ATTEST:

_____, City Clerk
City of _____

SAMPLE INFORMAL BIDDING ORDINANCE

ORDINANCE NO. _____

AN ORDINANCE OF THE BOARD OF SUPERVISORS
OF THE COUNTY¹ OF _____
ADDING SECTION _____
TO THE ORDINANCE CODE
OF THE COUNTY OF _____
TO PROVIDE INFORMAL BIDDING PROCEDURES
UNDER THE
UNIFORM PUBLIC CONSTRUCTION COST ACCOUNTING ACT
(SECTION 22000, ET SEQ. OF THE PUBLIC CONTRACT CODE)

The Board of Supervisors of the County of _____ do ordain as follows:

SECTION 1

Section _____ is hereby added to the County Code of the County of _____ to provide as follows:

Section _____. Informal Bid Procedures

Public projects, as defined by the Act and in accordance with the limits listed in Section 22032 of the Public Contract Code, may be let to contract by informal procedures as set forth in Section 22032, et seq., of the Public Contract Code.

Section _____. Contractors List

A list of contractors shall be developed and maintained in accordance with the provisions of Section 22034 of the Public Contract Code and criteria promulgated from time to time by the California Uniform Construction Cost Accounting Commission.

Section _____. Notice Inviting Informal Bids

Where a public project is to be performed which is subject to the provisions of this Ordinance, a notice inviting informal bids shall be mailed to all contractors for the category of work to be bid, as shown on the list developed in accordance with Section _____, and to all construction trade journals as specified by the California Uniform Construction Cost Accounting Commission in accordance with Section 22036 of the Public Contract Code². Additional contractors and/or construction trade journals may be notified at the discretion of the department/agency soliciting bids, provided however:

¹This SAMPLE INFORMAL BIDDING ORDINANCE indicates action by a county board of supervisors. However, the sample format can be used by any public agency governing body.

²Public Contract Code Section 22034(b) states that an agency shall mail a notice inviting informal bids to all contractors on the (agency's) list for the category of work being bid and/or all construction trade journals specified in Section 22036. The Commission recommends that each local agency define, in their informal bidding ordinance, which procedure they will follow, i.e., notify contractors list, construction trade journals, or both. The Commission strongly urges notification of both as this sample ordinance is drafted.

(1) If there is no list of qualified contractors maintained by the County for the particular category of work to be

performed, the notice inviting bids shall be sent only to the construction trade journals specified by the Commission.

(2) If the product or service is proprietary in nature such that it can be obtained only from a certain contractor or contractors, the notice inviting informal bids may be sent exclusively to such contractor or contractors.

Section _____. Award of Contracts

The County Purchasing Agent and the Director of Public Works are each authorized to award informal contracts pursuant to this Section.¹

SECTION 2

This Ordinance shall take effect and be in force thirty (30) days from the date of its passage, and before the expiration of fifteen (15) days after its passage, it or a summary of it, shall be published once, with the names of the members of the Board of Supervisors voting for and against the same in the _____, a newspaper of general circulation published in the County of _____.

PASSED, APPROVED and ADOPTED by the Board of Supervisors of the County of _____, State of California, this ____ day of _____, _____, by the following vote:

AYES:

NOES:

ABSENT:

¹Public Contract Code Section 22034(e) allows the governing body of the public agency to delegate the authority to award informal contacts. The Commission recommends that each local agency define, in its informal bidding ordinance, whether it wishes to delegate this authority and if so, to whom.

**PROCEDURE FOR ESTABLISHMENT AND MAINTENANCE
OF LIST OF QUALIFIED CONTRACTORS
PER SECTION 22034 OF THE PUBLIC CONTRACT CODE**

1. During November each year, each Public Agency which has elected to become subject to the Uniform Public Construction Cost Accounting Procedures shall mail a written notice to all construction trade journals designated for that Agency under Section 22036, inviting all licensed contractors to submit the name of their firm to the Agency for inclusion on the Agency's list of qualified bidders for the following calendar year.
2. The notice shall require that the contractor provide the name and address to which a Notice to Contractors or Proposal should be mailed, a phone number at which the contractor may be reached, the type of work in which the contractor is interested and currently licensed to do (earthwork, pipelines, electrical, painting, general building, etc.) together with the class of contractor's license(s) held and contractor license number(s).
3. The Public Agency may create a new contractors list starting January 1st of each year. The Agency may include any contractors' names it so desires on the list, but the list must include, at a minimum, all contractors who have properly provided the Agency with the information required under #2 above, either during the calendar year in which the list is valid or during November or December of the previous year.

The Commission recommends that the Agency automatically include the names of all contractors who submitted one or more valid bids to the Agency during the preceding calendar year.

4. A contractor may have his firm added to an Agency's contractors list at any time by providing the required information.

**COUNTY-BY-COUNTY LIST OF CONSTRUCTION TRADE JOURNALS WHICH SHALL
RECEIVE WRITTEN NOTICE OF ALL INFORMAL AND FORMAL CONSTRUCTION
CONTRACTS BEING BID FOR WORK
(PER SECTION 22036 OF THE PUBLIC CONTRACT CODE)**

The Commission has determined that all public agencies that adopt and contract under the Uniform Public Construction Cost Accounting Act shall be required to mail, e-mail or fax a notice to the following specified construction trade publications, of all informal and formal construction contracts being bid within the specified county (as provided in Sections 22034 and 22037 of the Public Contract Code). The numbers following the name of each county refer to the corresponding numbered publications on the List of Construction Trade Journals beginning on page 10.

Users will note that the notification of the trade journals listed in Column B is required. The user will have to notify at least two (2) of the trade journals listed in Column C, unless there is only one (1), in which case notification of the one trade journal is mandatory. The list of construction trade journals beginning on page 10 is more extensive. The Commission urges each public agency to select additional publications from its geographical area and include them on its list of publications to be notified. Sample information to be included in the mailed notice to trade journals is listed on page 9.

Note: You are not required to mail a notice to a trade journal if the trade journal listed under your county is now charging for its services, or is out of business. Instead, the Commission requests that you find some other method of notifying potential contractors of published jobs and how to be added to your informal bidding lists (e.g. Internet – County’s web page.)

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>
<u>COUNTY NAME</u>	<u>TRADE JOURNALS REQUIRED TO BE NOTIFIED</u>	<u>NOTIFY TWO OF THE TRADE JOURNAL LISTED BELOW</u>
ALAMEDA	1, 3	9, 15, 16, 18, 19, 20
ALPINE	1, 3	12
AMADOR	1, 3	12,14, 21
BUTTE	1, 3	6, 7, 12, 13
CALAVERAS	1, 3	12, 20,21
COLUSA	1, 3	6, 7,
CONTRA COSTA	1, 3	9, 16, 17, 18, 20
DEL NORTE	1, 3	4, 5, 6
EL DORADO	1, 3	11, 12, 13, 14
FRESNO	1, 3	20, 22, 26, 27, 28
GLENN	1, 3	6, 7,13
HUMBOLDT	1, 3	4, 5, 6
IMPERIAL	2, 3, 33	32
INYO	1,3	28
KERN	2, 3, 33	22, 27, 28, 29
KINGS	2, 3, 33	22, 26, 27, 28
LAKE	1,3	5, 6, 8, 9
LASSEN	1,3	4, 6, 12, 13
LOS ANGELES	2, 3, 33	32
MADERA	1,3	20, 22, 26
MARIN	1,3	8, 9
MARIPOSA	1,3	22
MENDOCINO	1,3	5, 8, 9
MERCED	1,3	20, 21, 22
MODOC	1,3	6
MONO	1,3	12
MONTEREY	1,3	19, 23, 24, 25, 29
NAPA	1,3	8, 9, 10
NEVADA	1,3	11, 12, 13, 14

<u>Column A</u>	<u>Column B</u>	<u>Column C</u>
<u>COUNTY NAME</u>	<u>TRADE JOURNALS REQUIRED TO BE NOTIFIED</u>	<u>NOTIFY TWO OF THE TRADE JOURNAL LISTED BELOW</u>
ORANGE	2, 3, 33	32
PLACER	1,3	11, 12, 13, 14,
PLUMAS	1,3	6, 7, 12, 13
RIVERSIDE	2, 3, 33	32
SACRAMENTO	1,3	6, 11, 12, 13, 14, 20
SAN BENITO	1,3	23, 24, 25
SAN BERNARDINO	2, 3, 33	32
SAN DIEGO	2, 3, 33	32
SAN FRANCISCO	1,3	9, 15, 16, 18, 19
SAN JOAQUIN	1,3	20, 21, 22
SAN LUIS OBISPO	2, 3, 33	24, 25, 28, 29, 30
SAN MATEO	1,3	9, 15, 16, 18, 19
SANTA BARBARA	2, 3, 33	29, 30, 31
SANTA CLARA	1,3	9, 15, 16, 18, 19, 23
SANTA CRUZ	1,3	19, 23, 24, 25
SHASTA	1,3	5, 6
SIERRA	1,3	12, 13
SISKIYOU	1,3	6
SOLANO	1,3	9, 10, 11, 20
SONOMA	1,3	8, 9
STANISLAUS	1,3	20, 21, 22
SUTTER	1,3	7, 11, 12, 13
TEHAMA	1,3	6, 13
TRINITY	1,3	5, 6
TULARE	1,3	26, 27, 28
TUOLUMNE	1,3	12, 21
VENTURA	2, 3, 33	28, 30, 31
YOLO	1,3	9, 11, 14
YUBA	1,3	7, 11, 12, 13

Sample Information For Mailed Notice

Following are the types of information that could be included in the mailed notice to the construction trade journals. This list should be used only as a guide.

Project title and contract # (if any)
 Cost range
 Location of site
 Who is taking bids/date and time due
 Owner's address and phone number
 Architect's address and phone number
 Brief description of work to be done
 Where plans may be obtained/Deposit required/Whether or not refundable
 Percentage of bid bond/Percentage of performance bond/Percentage of payment bond

LIST OF CONSTRUCTION TRADE JOURNALS

The following organizations have indicated to the Commission that they:

- a) Publish a newsletter or trade journal, on a weekly or more frequent basis, that contains a section listing projects being bid; or, provide a telephone notice service to their members.
- b) Do not charge for publishing or otherwise disseminating a Notice to Contractors.

These organizations have indicated to the Commission that they serve subscribers or members in the counties listed to the right of each organization.

Organizations which meet criteria (a) and (b) above may be added to the list, or changes or corrections can be made to the list by contacting:

Office of the State Controller
Division of Accounting & Reporting
Local Government Policies Section
P. O. Box 942850
Sacramento, CA 94250-5875

ORGANIZATION	AREAS OF MEMBERS OR SUBSCRIBERS BY COUNTY
1 Construction Market Data/Daily Construction Service 1540 River Park Drive, #117 Sacramento, CA 95815 Phone: 916-568-2747 Fax: 916-568-2749 Construction Market Data officials have indicated that this office should be used for Northern California counties. As an alternative, local offices are also listed (see 41).	Northern California: Counties north of and including Monterey, Kings, Tulare, and Inyo.
2 Construction Market Data Plan Room 2625 Manhattan Beach Blvd. Redondo Beach , CA 90278 Phone: 310-643-1263 Fax: 310-643-1260 Construction Market Data officials have indicated that this office should be used for Southern California counties. As an alternative local offices are also listed (see 42 and 43).	Southern California: Counties south of and including San Luis Obispo, Kern, and San Bernardino

ORGANIZATION

AREAS OF MEMBERS OR SUBSCRIBERS BY COUNTY

- | | | |
|---|---|---|
| 3 | <p>F. W. Dodge
1333 S. Mayflower Avenue, Suite 300
Monrovia, CA 91016-4066
Phone: 626-932-6181
Fax: 626-932-6153 or 800-360-6397</p> <p>FW Dodge officials have indicated that all information for Dodge Publications and the Daily Pacific Builder should be forwarded to this location. As an alternative, local offices are also listed (see 44 and 49).</p> | California |
| 4 | <p>Del Norte Builder's Exchange
711 H Street
Crescent City , CA 95531
Phone:
Fax: 707-465-5922
e-mail: delnortebex@aol.com</p> | Del Norte, Humboldt, and Lassen |
| 5 | <p>Humboldt Builders Exchange
2355 Myrtle Avenue
Eureka, CA 95501
Phone: 707-442-3708
Fax: 707-442-6051
e-mail: exec@humbx.com</p> | Humboldt, Del Norte, Trinity, Mendocino, Lake, and Shasta |
| 6 | <p>Shasta Builders Exchange
2990 Innsbrook Drive
Redding, CA 96003-9303
Phone: 530-221-5556
Fax: 530-221-2140
e-mail: kent@shastabe.com</p> | Shasta, Trinity, Butte, Glenn, Siskiyou, Del Norte, Humboldt, Modoc, Tehama, Plumas, Colusa, Sacramento, Lassen, and Lake |
| 7 | <p>Valley Contractors Exchange
951 East Eighth Street
Chico, CA 95928
Phone: 530-343-1981
Fax: 530-343-3503
e-mail: amy@vceonline.com:</p> | Butte, Yuba, Sutter, Glenn, Colusa, and Plumas |
| 8 | <p>North Coast Builders Exchange
987 Airport Court, P. O. Box 6025
Santa Rosa, CA 95406
Phone: 707-542-9502
Fax: 707-542-2027
e-mail: ceo@ncbe.santarosa.com</p> | Sonoma, Marin, Lake, Mendocino, and Napa |

ORGANIZATION

AREAS OF MEMBERS OR SUBSCRIBERS BY COUNTY

- | | |
|---|---|
| 9 Marin Builders Exchange
110 Belvedere Street
San Rafael, CA 94901
Phone: 415-456-3233
Fax: 415-456-7158
e-mail: mbe@marinink12.ca.us | Marin, Sonoma, San Francisco, Napa,
Contra Costa, Lake, Los Angeles,
Mendocino, San Mateo, Alameda, San
Joaquin, Santa Clara, Sacramento, Solano,
and Yolo |
| 10 Solano-Napa Builders Exchange
135 Camino Dorado
Napa, CA 94558-6213
Phone: 707-255-2515
Fax: 707-255-2749
e-mail: evp@snbe.com | Solano and Napa |
| 11 Sacramento Builders Exchange
1331 T Street
P.O. Box 1462
Sacramento, CA 95812-1462
Phone: 916-442-8991
Fax: 916-446-3117
e-mail: planholders@sbxchange.net | Sacramento, Yolo, Placer, Nevada, El
Dorado, Solano, Sutter, and Yuba |
| 12 Placer County Builders Exchange and
Contractor's Association, Inc.
271 Auburn Ravine Road
Auburn, CA 95603
Phone: 530-889-3953
Fax: 530-889-3956
e-mail: eddie@placerbx.com | Madera, Merced, Fresno, Mariposa, Santa
Clara, Alameda, Stanislaus, Contra Costa,
San Joaquin, Calaveras, Amador,
Sacramento, Alpine, Mono, Tuolumne, El
Dorado, Solano, Yolo, Placer, Napa, Sutter,
Nevada, Colusa, Yuba, Lake, Sonoma,
Sierra, Plumas, Butte, Glenn, Mendocino,
Tehama, Lassen, Shasta, Trinity, San Benito,
Monterey, San Francisco, Humboldt, Modoc,
Siskiyou, and Del Norte |
| 13 Nevada County Contractor's Association
111-A New Mohawk Road
Nevada City, CA 95959
Phone: 530-265-8541
Fax: 530-265-8726
e-mail: nccaexec@oro.net | Nevada, Placer, El Dorado, Sacramento,
Sierra, Lassen, Yuba, Sutter, Butte, Tehama,
Plumas, and Glenn |
| 14 El Dorado Builder's Exchange
3430 Robin Lane, No. 7
Cameron Park, CA 95682
Phone: 530-672-2955
Fax: 530-672-2985
e-mail: karen@goodbuilders.org | El Dorado, Sacramento, Placer, Amador,
Nevada, and Yolo |

ORGANIZATION**AREAS OF MEMBERS OR
SUBSCRIBERS
BY COUNTY**

- | | |
|---|---|
| 15 San Francisco Builders Exchange
850 South Van Ness Avenue
San Francisco, CA 94110-1911
Phone: 415-282-8220
Fax: 415- 821-0363
e-mail: denna@bxosf.com | San Francisco, San Mateo, Santa Clara, and Alameda |
| 16 Builders Exchange of Alameda County
P.O. Box 1978, 3055 Alvarado Street
San Leandro, CA 94577
Phone: 510-483-8880
Fax: 510-352-1509
e-mail: spleary@beac.com | Alameda, Contra Costa, San Francisco, San Mateo, and Santa Clara |
| 17 Contra Costa Builders Exchange
1900 Bates Avenue, Suites E & F
Concord, CA 94520-1230
Phone: 925-685-8630
Fax: 925-685-3424
e-mail: denicem@ccbx.com | Contra Costa |
| 18 Peninsula Builders Exchange
735 Industrial Road
San Carlos, CA 94070
Phone: 650-591-4486
Fax: 650-591-8108
e-mail: pbx@best.com | San Mateo, San Francisco, Santa Clara, Alameda, and Contra Costa |
| 19 Builders Exchange of Santa Clara County
400 Reed Street
Santa Clara, CA 95050
Phone: 408-727-4000
Fax: 408-727-2779
e-mail: mm@bxsc.co | Santa Clara, San Mateo, San Francisco, Alameda, Santa Cruz, and Monterey |
| 20 Builders Exchange of Stockton
7500 West Lane
Stockton, CA 95210
Phone: 209-478-1000
Fax: 209-478-2132
e-mail: rruby@bexonline.com | San Joaquin, Stanislaus, Merced, Madera, Fresno, Alameda, Contra Costa, Sacramento, Solano, and Calaveras |
| 21 Valley Builders Exchange
P. O. Box 4307
Modesto, CA 95352
Phone: 209-522-9031
Fax: 209-522-0616
e-mail: vbe@jps.net | Stanislaus, San Joaquin, Merced, Calaveras, Tuolumne, and Amador |

ORGANIZATION	AREAS OF MEMBERS OR SUBSCRIBERS BY COUNTY
22 Builders Exchange of Merced-Mariposa P. O. Box 761 Merced, CA 95341-0761 Phone: 209-722-3612 Fax: 209-722-0207 e-mail: buildersexchange@cell2000.net	Merced, Stanislaus, Fresno, Madera, and Mariposa, San Joaquin, Kings, and Kern
23 Santa Cruz County Builders Exchange 2555 Soquel Drive Santa Cruz, CA 95065 Phone: 831-476-3407 Fax: 831-476-6349 e-mail: dana@scbuild.com	Santa Cruz , Monterey, Santa Clara, and San Benito
24 Builders Exchange of the Monterey Peninsula 343 Ocean Avenue Monterey, CA 93940 Phone: 831-373-3033 Fax: 881-373-8682 e-mail: gwen@montereybx.com	Monterey, Santa Cruz, San Benito, and San Luis Obispo
25 Salinas Valley Builder's Exchange 590-A Brunken Avenue Salinas, CA 93901 Phone: 831-758-1624 Fax: 831-758-6203 e-mail: gwen@svbe.com	Monterey, Santa Cruz, San Benito, and San Luis Obispo
26 Fresno Builders Exchange P. O. Box 111 Fresno, CA 93707-0111 Phone: 559-237-1831 Fax: 559-264-2532 e-mail: fbe@attitude.com	Fresno, Madera, San Joaquin, Kings, and Tulare,
27 Tulare & Kings Counties Builders Exchange P.O. Box 667 Visalia, CA 93291 Phone: 559-732-4568 Fax: 559-732-7568 e-mail: info@tkcbe.com	Tulare, Kings, Fresno, and Kern
28 Kern County Builders Exchange 1121 Baker Street Bakersfield, CA 93305 Phone: 661-324-4921 Fax: 661-324-5364 e-mail: KCBX@lightspeed.net	Kern, Kings, Tulare, San Luis Obispo, Ventura, Fresno, and Inyo.

ORGANIZATION**AREAS OF MEMBERS OR
SUBSCRIBERS
BY COUNTY**

- | | | |
|----|--|---|
| 29 | San Luis Obispo County Builders Exchange
3563 G Sueldo Suite
San Luis Obispo, CA 93401
Phone: 805-543-7330
Fax: 805-543-7016
e-mail: linda@slocbe.com | San Luis Obispo, Northern Santa Barbara, Monterey and Kern |
| 30 | Santa Maria Valley Contractors Assn.
2003 N. Preisker Lane, Suite A
Santa Maria, CA 93454
Phone: 805-925-1191
Fax: 805-922-2983
e-mail: smvca@silcom.com | Santa Barbara, San Luis Obispo, and Ventura |
| 31 | Ventura County Contractors Assn.
1830 Lockwood Street, No. 110
Oxnard, CA 93036
Phone: 805-981-8088
Fax: 805-981-8089
e-mail: vcca@vccainc.com | Ventura and Santa Barbara |
| 32 | Southern California Builders Assn.
2530 W. Whittier Blvd, Suite 5
La Habra, CA 90631
Phone: 562-267-1400
Fax: 562-267-1404
e-mail: scba@webworldinc.com | Los Angeles, San Diego, Orange, Riverside, San Bernardino, and Imperial |
| 33 | Construction Data Corporation
11940 Jollyville Road, Suite 305-S
Austin, TX 78759
Phone: 800-872-7878
Fax: 800-487-7878
e-mail: research@cdcnews.com | Southern California |
| 34 | Bid Editor
From The Ground Up
7115 Westminster Avenue
Westminster, CA 92683
Phone:
Fax: | Los Angeles, Orange, Riverside, and San Bernardino |
| 35 | Bid America
41085 Elm Street
Murrieta, CA 92562
Phone: 909-677-4819
Fax: 909-600-0615 | Kern County south to Mexican Border |

ORGANIZATION**AREAS OF MEMBERS OR
SUBSCRIBERS
BY COUNTY**

- | | | |
|----|--|---------------------|
| 36 | Bidnet
P.O. Box 5600
Albany, NY 12214-5213
Phone:
Fax: | |
| 37 | Construction Bid Source Interactive
14237 Camanche Parkway
P.O. Box 568
Burson, CA 95225-0568
Phone: 800-962-4162
Fax: | |
| 38 | Demand Star.com, Inc.
1200 South Pine Island Rd 6 th Floor
Plantation, FL 33324
Phone: 954-577-6500
Fax: 954-577-3941
e-mail: info@demandstar.com | |
| 39 | California Daily Bid Advisor
1276 Lincoln Avenue, Suite 203
San Jose, CA 95125
Phone: 800 298-0240
Fax: | California |
| 40 | Contractor's Information Network
1629 Pollasky, Suite 113
Clovis, CA 93612
Phone: 559-325-7054
Fax: | California |
| 41 | Construction Market Data & Daily
Construction Service
80 Swan Way, Suite 130
Oakland, CA 94621
Phone: 510-636-2480
Fax: 519-636-2492 | Northern California |
| 42 | Construction Market Data Plan
1717 So. State College Blvd., Suite 160
Anaheim, CA 92806
Phone: 714-939-1263
Fax: 714-939-7616 | Southern California |

ORGANIZATION	AREAS OF MEMBERS OR SUBSCRIBERS BY COUNTY
43 Construction Market Data Plan Room 8555 Aero Drive, Suite #106 San Diego, CA 92123 Phone: (858) 573-0076 Fax:	International
44 F. W. Dodge Division 202 E. Airport, Suite 130 San Bernardino, CA 92408 Phone: 909-885-6857 Fax: 909-885-0709	San Bernardino and Riverside
45 F. W. Dodge Division 8825 Aero Drive, Suite A-120 San Diego, CA 92123 Phone: 858-279-5330 Fax:	San Diego and Imperial
46 F. W. Dodge Division 2150 Town Center Place, Suite 100 Anaheim, CA 92806 Phone: 714 -937-0831 Fax: 714-937-0917	Southern California
48 F. W. Dodge 130 Doolittle Drive, Suite #1 San Leandro, CA 94577 Phone: 510-636-1812 Fax:	Northern California
49 F. W. Dodge 1791 Tribute Road, Suite D Sacramento, CA 95815 Phone: 916- 920-2240 Fax:	Sacramento

ACCOUNTING PROCEDURES REVIEW

- I. Pursuant to the provisions of Public Contract Code Section 22042, the Commission has adopted the following Accounting Procedures Review, where an interested party presents evidence that the work undertaken by the public agency falls within any of the following categories:
 - A. Is to be performed by a public agency after rejection of all bids, claiming work can be done less expensively by the public agency.
 - B. Exceeded the force account limit.
 - C. Has been improperly classified as maintenance.
- II. As used in the Accounting Procedures Review, "interested party" shall mean: a licensed contractor eligible to bid on the public project involved in the review; a labor organization whose members would be eligible to perform work on the public project if it were performed by contract; an association of licensed contractors and/or labor organizations; or a taxpayer of the public agency involved in the review.
- III. Request for Accounting Procedures Review
 - A. In those circumstances as set forth in section 1(A) above, a request for Commission review shall be in writing, sent by certified or registered mail received by the Commission, postmarked not later than five business days from the date the public agency has rejected all bids.
 - B. In those circumstances set forth in section 1(B) or 1(C), a request for Commission review shall be by letter received by the Commission not later than five calendar days from the date an interested party formally complains in writing to the public agency.
 - C. The address for purpose of notice herein is the: CALIFORNIA UNIFORM CONSTRUCTION COST ACCOUNTING COMMISSION, Office of the State Controller, Division of Accounting & Reporting, Accounting Policies Section, P.O. Box 942850, Sacramento, CA 94250-5875.
 - D. Such written notice shall include the following information:
 - 1 Name, address, phone number of interested party as defined in (II) above, and person to be contacted presenting evidence.
 - 2 Indicate that work undertaken by the public agency falls within one of the following categories:
 - a. Is to be performed by a public agency after rejection of all bids, claiming work can be done less expensively by the public agency.
 - b. Exceeded the force account limits.
 - c. Has been improperly classified as maintenance.
 - 3 Name, address, and phone number of the Public Agency involved.

ACCOUNTING PROCEDURES REVIEW (CONTINUED)

- 4 Project name, location, or other project identification number.
 - 5 Bid date and rejection date, if applicable.
 - 6 Low bid dollar amount, if applicable.
 - 7 Agency estimate, if available.
 - 8 Other supporting information, if available.
- E. At the time it transmits its request to the Commission for review, the interested party shall mail a copy of the request by first class mail, postage prepaid, to the public agency involved.
- IV. The Commission shall approve and designate in writing the consultants available to investigate requests for accounting procedures review. Such consultants shall be prequalified as follows:
- A. They shall submit resumes of experience to the Commission for prequalification.
 - B. Each applicant shall have at least five years of experience with, and be knowledgeable of, public works construction and/or accounting under contracts let by public agencies.
 - C. They shall submit their schedule of fees required to perform such service.
- V. Immediately upon receipt of a request for accounting procedures review, it shall be assigned by the Commission to one/or more of the prequalified consultants for review.
- A. The consultant will review all of the information set forth in Section III(d).
 - B. The consultant will interview the public agency involved and submit as a part of the findings a complete statement of the public agency's position with respect to the review being conducted.
 - C. The consultant shall prepare written findings and a recommended decision within twenty (20) calendar days from the date the request for review was received by the Commission.
- VI. The Commission may appoint a subcommittee consisting of at least three (3) members to meet and review the findings of fact and recommended decision of the consultant. The Commission shall render its final decision within thirty (30) calendar days of the date on which the request was received by the Commission. A copy of the decision shall be mailed by first class mail, postage prepaid, to each Commission member, the interested party, and the public agency involved.
- VII. Decisions on accounting procedures reviews shall be collected and maintained at the offices of the Commission and shall be available for public inspection during regular working hours. Such decisions may be cited and relied upon by interested parties and public agencies in subsequent reviews.

**UNIFORM PUBLIC
CONSTRUCTION COST
ACCOUNTING ACT**

CHAPTER 2. BIDDING ON PUBLIC CONTRACTS

Article 1. Legislative Intent and Definitions

22000 Short Title	This chapter shall be known and may be cited as the "Uniform Public Construction Cost Accounting Act."
22001 Legislative Findings and Declarations	The Legislature finds and declares that there is a statewide need to promote uniformity of the cost accounting standards and bidding procedures on construction work performed or contracted by public entities in the state. This chapter provides for the development of cost accounting standards and an alternative method for the bidding of public works projects by public entities.
22002 Definitions	<p>(a) "Public agency" for purposes of this chapter, means a city, county, city and county, including chartered cities and chartered counties, any special district, and any other agency of the state for the local performance of governmental or proprietary functions within limited boundaries. "Public Agency" also includes a nonprofit transit corporation wholly owned by a public agency and formed to carry out the purposes of the public agency.</p> <p>(b) "Representatives of the construction industry" for purposes of this chapter, means a general contractor, subcontractor, or labor representative with experience in the field of public works construction.</p> <p>(c) "Public project" means any of the following:</p> <p>(1) Construction, reconstruction, erection, alteration, renovation, improvement, demolition, and repair work involving any publicly owned, leased, or operated facility.</p> <p>(2) Painting or repainting of any publicly owned, leased, or operated facility.</p> <p>(3) In the case of a publicly owned utility system, "public project" shall include only the construction, erection, improvement, or repair of dams, reservoirs, powerplants, and electrical transmission lines of 230,000 volts and higher.</p> <p>(d) "Public project" does not include maintenance work. For purposes of this section, "maintenance work" includes all of the following:</p> <p>(1) Routine, recurring, and usual work for the preservation or protection of any publicly owned or publicly operated facility for its intended purposes.</p> <p>(2) Minor repainting.</p> <p>(3) Resurfacing of streets and highways at less than one inch.</p> <p>(4) Landscape maintenance, including mowing, watering, trimming, pruning, planting, replacement of plants, and servicing of irrigation and sprinkler systems.</p> <p>(5) Work performed to keep, operate, and maintain publicly owned water, power, or waste disposal systems, including, but not limited to, dams, reservoirs, powerplants, and electrical transmission lines of 230,000 volts and higher.</p>

(e) For purposes of this chapter, "facility" means any plant, building, structure, ground facility, utility system, subject to the limitation found in paragraph (3) of subdivision (c), real property, streets and highways, or other public work improvement.

22003 Public Agency Subject to Uniform Cost Accounting Procedures; Bidding Procedures	A public agency which has, by resolution, elected to become subject to the uniform construction cost accounting procedures set forth in Article 2 (commencing with Section 22010), may utilize the bidding procedures set forth in Article 3 (commencing with Section 22030) when contracting for "maintenance work," as defined in Section 22002, or when contracting for any other work which does not fall within the definition of "public project," as defined in Section 22002.
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Article 2. California Uniform Construction Cost Accounting Commission

22010 Creation; Membership; Appointment	There is hereby created the California Uniform Construction Cost Accounting Commission. The commission is comprised of 14 members.
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(a) Thirteen of the members shall be appointed by the Controller as follows:

(1) Two members who shall each have at least 10 years of experience with, or providing professional services to, a general contracting firm engaged, during that period, in public works construction in California.

(2) Two members who shall each have at least 10 years of experience with, or providing professional services to, a firm or firms engaged, during that period, in subcontracting for public works construction in California.

(3) Two members who shall each be a member in good standing of, or have provided professional services to, an organized labor union with at least 10 years of experience in public works construction in California.

(4) Seven members who shall each be experienced in, and knowledgeable of, public works construction under contracts let by public agencies; two each representing cities, counties, respectively, and two representing school districts (one with an average daily attendance over 25,000 and one with an average daily attendance under 25,000), and one member representing a special district. At least one of the two county representatives shall be a county auditor or his or her designee.

(b) The member of the Contractors' State License Board who is a general engineering contractor as that term is defined in Section 7056 of the Business and Professions Code shall serve as an ex officio voting member. He or she shall become a member of the commission when the first vacancy occurs in an office of one of the members under paragraph (1) of subdivision (a).

22011 Appointment: Recommendations	The Controller, in an effort to select highly qualified commission members, shall solicit from organized representatives of the construction industry and public agencies recommendations for appointments to the commission.
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22012 Members; Accounting Experience	At least one commission member of the six representing the construction industry and at least one of the six representing public agencies shall have previous accounting experience.
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22013 Chairperson; Term	The commission members shall select a chairperson from among its membership. The chairperson shall serve as chair for a term of one year from the date of selection or February 1, whichever comes first. In no event shall two consecutive chairpersons be appointees representing either the construction industry or public agencies.
22014 Members; Terms; Vacancies	<p>(a) The members of the commission shall hold office for terms of three years, and until their successors are appointed, except as otherwise provided for in this section.</p> <p>(b) In the case of members initially appointed by the Controller, two representing the construction industry and two representing public agencies shall be appointed to serve until July 1, 1985; two representing the construction industry and two representing public agencies shall be appointed to serve until July 1, 1986; and three representing the construction industry and three representing public agencies shall be appointed to serve until July 1, 1987.</p> <p>(c) Members may be reappointed for subsequent terms of three years.</p> <p>(d) The Controller shall, within 45 days after expiration of any term, appoint a replacement to fill the vacancy on the Commission.</p>
22015 Staff; Members' Compensation; Grants	<p>(a) The Controller shall make available for the conduct of the commission's business, such staff and other support as does not conflict with the accomplishment of the other business of the office of the Controller.</p> <p>(b) Each member of the commission shall serve without compensation, but shall be reimbursed for travel and other expenses necessarily incurred in the performance of the member's duties.</p> <p>(c) The commission may accept grants from federal, state, or local public agencies, or from private foundations or individuals, in order to assist it in carrying out its duties, functions, and powers under this chapter.</p>
22016 Meetings	The commission shall meet not less than once each year, at a time and place chosen by its membership.
22017 Duties	<p>The commission shall do all of the following:</p> <p>(a) After due deliberation and study, recommend for adoption by the Controller, uniform construction cost accounting procedures for implementation by public agencies in the performance of, or in contracting for, construction on public projects. The procedures shall, to the extent deemed feasible and practicable by the commission, incorporate, or be consistent with construction cost accounting procedures and reporting requirements utilized by state and federal agencies on public projects, and be uniformly applicable to all public agencies which elect to utilize the uniform procedures. As part of its deliberations and review, the commission shall take into consideration relevant provisions of Office of Management and Budget Circular A-76.</p>

(b) After due deliberation and study, recommend for adoption by the Controller cost accounting procedures designed especially for implementation by California cities with a population of less than 10,000. The procedures shall incorporate cost accounting and reporting requirements deemed practicable and applicable to all cities under 10,000 population which elect to utilize the uniform procedures.

(c) Recommend for adoption by the Controller, procedures and standards for the periodic evaluation and adjustment, as necessary, of the monetary limits specified in Section 22032.

(d) The commission shall make an annual report to the Legislature with respect to its activities and operations, together with those recommendations as it deems necessary.

22018 Recommended Procedure; Controller's Review	The Controller shall, upon receipt of the commission's recommendations, review and evaluate the recommended procedures and either formally adopt or reject the recommended procedures within 90 days of submission by the commission.
22019 Adoption; Promulgation of Uniform Procedure	Upon determining that the recommended uniform construction cost accounting procedures will serve the best interests of the state and public agencies, and upon formal adoption by the Controller, the Controller shall promulgate the uniform procedure for all public agencies electing to participate, together with instructions for their adoption and implementation by any public agency.
22020 Five Year Consideration; Material Changes; Adjustments	In accordance with procedures and standards adopted pursuant to Section 22017, every five years the commission shall consider whether there have been material changes in public construction costs and make recommendations to the Controller regarding adjustments in the monetary limits prescribed by Section 22032, but in no case shall the amount, as adjusted, be less than fifteen thousand dollars (\$15,000). Any adjustment shall be effective beginning with the fiscal year which commences not less than 60 days following the Controller's notification to affected public agencies of the adjustment.

Article 3. Public Projects: Alternative Procedure

22030 Application of Article	This article applies only to a public agency whose governing board has by resolution elected to become subject to the uniform construction cost accounting procedures set forth in Article 2 (commencing with Section 22010) and which has notified the Controller of that election. In the event of a conflict with any other provision of law relative to bidding procedures, this article shall apply to any public agency which has adopted a resolution and so notified the Controller.
22031 Alternative Procedures	Nothing in this article shall prohibit a board of supervisors or a county road commissioner from utilizing, as an alternative to the procedures set forth in this article, the procedures set forth in Article 25 (commencing with Section 20390) of Chapter 1.

22032 Contracting Procedures; Dollar Amount Limitations	<p>(a) Public projects of twenty-five thousand dollars (\$25,000) or less may be performed by the employees of a public agency by force account, by negotiated contract, or by purchase order.</p> <p>(b) Public projects of one hundred thousand dollars (\$100,000) or less may be let to contract by informal procedures as set forth in this article.</p> <p>(c) Public projects of more than one hundred thousand dollars (\$100,000) shall, except as otherwise provided in this article, be let to contract by formal bidding procedure.</p> <p><i>76 Op. Atty. Gen. 126,7-14-93 = Job order contracts - General law county or general law city may not enter into a "job order contract" in excess of \$50,000 for the performance of public projects involving minor construction, and the renovation, alteration, painting, and repair of existing facilities, except under narrowly defined statutory conditions applicable only to counties.</i></p>
22033 Separation of Work Orders or Projects; Evasion of Provisions of Article	<p>It shall be unlawful to split or separate into smaller work orders or projects any projects for the purpose of evading the provisions of this article requiring work to be done by contract after competitive bidding.</p>
22034 Informal Bidding Ordinance	<p>Each public agency which elects to become subject to the uniform construction accounting procedures set forth in Article 2 (commencing with Section 22010), shall enact an informal bidding ordinance to govern the selection of contractors to perform public projects pursuant to subdivision (b) of Section 22032. The ordinance shall include all of the following:</p> <p>(a) The public agency shall maintain a list of qualified contractors, identified according to categories of work. Minimum criteria for development and maintenance of the contractors list shall be determined by the commission.</p> <p>(b) All contractors on the list for the category of work being bid and all construction trade journals specified in Section 22036, or both all contractors on the list for the category of work being bid and all construction trade journals specified in Section 22036, shall be mailed a notice inviting informal bids unless the product or service is proprietary.</p> <p>(c) All mailing of notices to contractors and construction trade journals pursuant to subdivision (b) shall be completed not less than 10 calendar days before bids are due.</p> <p>(d) The notice inviting informal bids shall describe the project in general terms, how to obtain more detailed information about the project, and state the time and place for the submission of bids.</p> <p>(e) The governing body of the public agency may delegate the authority to award informal contracts to the public works director, general manager, purchasing agent, or other appropriate person.</p> <p>(f) If all bids received are in excess of one hundred thousand dollars (\$100,000), the governing body of the public agency may by passage of a resolution by a four-fifths vote, award the contract, at one hundred ten thousand dollars (\$110,000), or less, to the lowest responsible bidder, if it determines the cost estimate of the public agency was reasonable.</p>

22035 Emergencies	<p>(a) In cases of emergency when repair or replacements are necessary, the governing body may proceed at once to replace or repair any public facility without adopting plans, specifications, strain sheets, or working details, or giving notice for bids to let contracts. The work may be done by day labor under the direction of the governing body, by contract, or by a combination of the two.</p> <p>(b) In case of an emergency, if notice for bids to let contracts will not be given, the public agency shall comply with Chapter 2.5 (commencing with Section 22050).</p>
22035.5 Overcrowded Justice Facilities; Court Ordered Relief; Application of Section 22034	In counties that are under court order to relieve justice facility overcrowding, the procedures and restrictions specified in Section 20134 shall apply to all contracts issued under this chapter.
22036 Determination of Construction Trade Journals to Receive Notice of Informal and Formal Construction Contracts	The commission shall determine, on a county-by-county basis, the appropriate construction trade journals which shall receive mailed notice of all informal and formal construction contracts being bid for work within the specified county.
22037 Notice Inviting Formal Bids; Information: Publication	Notice inviting formal bids shall state the time and place for the receiving and opening of sealed bids and distinctly describe the project. The notice shall be published at least 14 calendar days before the date of opening the bids in a newspaper of general circulation, printed and published in the jurisdiction of the public agency; or, if there is no newspaper printed and published within the jurisdiction of the public agency, in a newspaper of general circulation which is circulated within the jurisdiction of the public agency, or, if there is no newspaper which is circulated within the jurisdiction of the public agency, publication shall be by posting the notice in at least three places within the jurisdiction of the public agency as have been designated by ordinance or regulation of the public agency as places for the posting of its notices. The notice inviting formal bids shall also be mailed to all construction trade journals specified in Section 22036. The notice shall be mailed a least 30 calendar days before the date of opening the bids. In addition to notice required by this section, the public agency may give such other notice as it deems proper.
22038 Rejection of Bids; Failure to Receive Bids; Options	<p>(a) In its discretion, the public agency may reject any bids presented. If after the first invitation for bids all bids are rejected, the public agency shall have the option of either of the following:</p> <p>(1) Abandoning the project or readvertising for bids in the manner described by this article.</p> <p>(2) By passage of a resolution by a four-fifths vote of its governing body declaring that the project can be performed more economically by the employees of the public agency, may have the project done by force account without further complying with this article.</p> <p>(b) If a contract is awarded, it shall be awarded to the lowest responsible bidder. If two or more bids are the same and the lowest, the public agency may accept the one it chooses.</p> <p>(c) If no bids are received through the formal or informal procedure, the project may be performed by the employees of the public agency by force account, or negotiated contract without further complying with this article.</p>

22039 Adoption of Plans, Specifications, and Working Details	The governing body of the public agency shall adopt plans, specifications, and working details for all public projects exceeding the amount specified in subdivision (c) of Section 22032.
22040 Plans, Specifications of Working Details; Examination	Any person may examine the plans, specifications, or working details, or all of these, adopted by the public agency for any project.
22041 Exemptions	This article does not apply to the construction of any public building used for facilities of juvenile forestry camps or juvenile homes, ranches, or camps established under Article 15 (commencing with Section 880) of Chapter 2 of Part 1 of Division 2 of the Welfare and Institutions Code, if a major portion of the construction work is to be performed by wards of the juvenile court assigned to those camps, ranches, or homes.
22042 Accounting Procedures Review	<p>The commission shall review the accounting procedures of any participating public agency where an interested party presents evidence that the work undertaken by the public agency falls within any of the following categories:</p> <p>(a) Is to be performed by a public agency after rejection of all bids, claiming work can be done less expensively by the public agency.</p> <p>(b) Exceeded the force account limits.</p> <p>(c) Has been improperly classified as maintenance.</p>
22043 Work Done by Public Agency; Commission Review; Request	In those circumstances as set forth in subdivision (a) of Section 22042, a request for commission review shall be in writing, sent by certified or registered mail received by the commission postmarked not later than five business days from the date the public agency has rejected all bids. In those circumstances set forth in subdivision (b) or (c) of Section 22042, a request for commission review shall be by letter received by the commission not later than five days from the date an interested party formally complains to the public agency. The commission review shall commence immediately and conclude within 30 days from the receipt of the request for commission review. During the review of a project that falls within subdivision (a) of Section 22042, the agency shall not proceed on the project until a final decision is received by the commission.
22044 Written Findings; Failure to Comply with Chapter; Action	<p>The commission shall prepare written findings. Should the commission find that the provisions of this chapter or of the uniform cost accounting procedures provided for in this chapter were not complied with by the public agency, the following steps shall be implemented by that agency:</p> <p>(a) On those projects set forth in subdivision (a) of Section 22042, the public agency has the option of either (1) abandoning the project, or (2) awarding the project to the lowest responsible bidder.</p> <p>(b) On those projects set forth in subdivision (b) or (c) of Section 22042, the public agency shall present the commission's findings to its governing body and that governing body shall conduct a public hearing with regard to the commission's finding within 30 days of receipt of the findings.</p>

- 22045 Implementation of
Procedures Review: Commission
Recommendations
- (a) No later than January 1, 1985, the commission shall recommended, for adoption by the Controller, written procedures implementing the accounting procedures review provided for in this article.
- (b) The Controller shall, upon receipt of the commission's recommendation, review and evaluate the recommended procedures and either formally adopt or reject the recommended procedures within 90 days of submission of the commission.

CHAPTER 2.5. EMERGENCY CONTRACTION PROCEDURES

- 22050 Contracts Without Bids;
Procedures
- (a) (1) In the case of an emergency, a public agency, pursuant to a four-fifths vote of its governing body, may repair or replace a public facility, take any directly related and immediate action required by that emergency, and procure the necessary equipment, services, and supplies for those purposes, without giving notice for bids to let contracts.
- (2) Before a governing body takes any action pursuant to paragraph (1), it shall make a finding, based on substantial evidence set forth in the minutes of its meeting, that the emergency will not permit a delay resulting from a competitive solicitation for bids, and that the action is necessary to respond to the emergency.
- (b) (1) The governing body, by a four-fifths vote, may delegate, by resolution or ordinance, to the appropriate county administrative officer, city manager, chief engineer, or other nonelected agency officer, the authority to order any action pursuant to paragraph (1) of subdivision (a).
- (2) If the public agency has no county administrative officer, city manager, chief engineer, or other nonelected agency officer, the governing body, by a four-fifths vote, may delegate to an elected officer the authority to order any action specified in paragraph (1) of subdivision (a).
- (3) If a person with authority delegated pursuant to paragraph (1) or (2) orders any action specified in paragraph (1) of subdivision (a), that person shall report to the governing body, at its next meeting required pursuant to this section, the reasons justifying why the emergency will not permit a delay resulting from a competitive solicitation for bids and why the action is necessary to respond to the emergency.
- (c) (1) If the governing body orders any action specified in subdivision (a), the governing body shall review the emergency action at its next regularly scheduled meeting and, except as specified below, at every regularly scheduled meeting thereafter until the action is terminated, to determine, by a four-fifths vote, that there is a need to continue the action. If the governing body meets weekly, it may review the emergency action in accordance with this paragraph every 14 days.

(2) If a person with authority delegated pursuant to subdivision (b) orders any action specified in paragraph (1) of subdivision (a), the governing body shall initially review the emergency action not later than seven days after the action, or at its next regularly scheduled meeting if that meeting will occur not later than 14 days after the action, and at least at every regularly scheduled meeting thereafter until the action is terminated, to determine, by a four-fifths vote, that there is a need to continue the action, unless a person with authority delegated pursuant to subdivision (b) has terminated that action prior to the governing body reviewing the emergency action and making a determination pursuant to this subdivision. If the governing body meets weekly, it may, after the initial review, review the emergency action in accordance with this paragraph every 14 days.

(3) When the governing body reviews the emergency action pursuant to paragraph (1) or (2), it shall terminate the action at the earliest possible date that conditions warrant so that the remainder of the emergency action may be completed by giving notice for bids to let contracts.

(d) As used in this section, "public agency" has the same meaning as defined in Section 22002.

(e) A three-member governing body may take actions pursuant to subdivision (a), (b), or (c) by a two-thirds vote.

(f) This section applies only to emergency action taken pursuant to Sections 20133, 20134, 20168, 20193, 20205.1, 20213, 20223, 20233, 20253, 20273, 20283, 20293, 20303, 20313, 20331, 20567, 20586, 20604, 20635, 20645, 20685, 20736, 20751.1, 20806, 20812, 20914, 20918, 20926, 20931, 20941, 20961, 20991, 21020.2, 21024, 21031, 21043, 21061, 21072, 21081, 21091, 21101, 21111, 21121, 21131, 21141, 21151, 21161, 21171, 21181, 21191, 21196, 21203, 21212, 21221, 21231, 21241, 21251, 21261, 21271, 21290, 21311, 21321, 21331, 21341, 21351, 21361, 21371, 21381, 21391, 21401, 21411, 21421, 21431, 21441, 21451, 21461, 21472, 21482, 21491, 21501, 21511, 21521, 21531, 21541, 21552, 21567, 21572, 21581, 21591, 21601, 21618, 21624, 21631, 21641, and 22035.

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PART II

**UNIFORM PUBLIC CONSTRUCTION
COST ACCOUNTING
POLICIES AND PROCEDURES**

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SECTION I. INTRODUCTION

As specified in the State of California Public Contract Code, all governmental jurisdictions are limited to the dollar amount of public project work that can be performed using internal resources. The jurisdictions are further required to follow various bidding procedures in undertaking construction work performed or contracted in the jurisdiction. The passage of Chapter 1054, Statutes of 1983 (Uniform Public Construction Cost Accounting Act), and subsequent amendments provided in Chapter 758, Statutes of 1983; Chapter 993, Statutes of 1984; Chapter 1019, Statutes of 1986; Chapter 1327, Statutes of 1987; Chapters 239 and 1408, Statutes of 1988; Chapters 241 and 733, Statutes of 1989, Chapter 373, Statutes of 1997, Chapter 485, Statutes of 1998. and Chapter 176, Statutes of 2001, amended and added Chapter 2 (commencing with Section 22000) to Part 3 of Division 2 of the Public Contract Code. This legislation provides for alternative bidding procedures by public agencies in undertaking public project work, provided they subscribe to uniform construction cost accounting policies and procedures developed in accordance with the law.

The purpose of this document is to give public agencies those construction cost accounting policies and procedures required in accordance with this above-mentioned legislation. To assist in understanding these policies and procedures, we have provided examples of typical transactions which would occur under this program. These examples are for illustrative purposes only and, although they may be used, should not be considered required formats for public agencies operating under this program.

A. UNIFORM PUBLIC CONSTRUCTION COST ACCOUNTING ACT

Public Agency

The law applies to all public agencies, including cities, counties, chartered cities and chartered counties, any special district and any other agency of the state responsible for the local performance of governmental or proprietary functions with unlimited boundaries. "Public agency" includes a nonprofit transit corporation wholly owned by a public agency and formed to carry out the purposes of the public agency.

Public Projects

The law includes all public projects performed by public agencies related to the following:

Construction, reconstruction, erection, alteration, renovation, improvement, demolition and repair work involving any publicly owned, leased or operated facility.

Painting or repainting of any publicly owned, leased or operated facility.

In the case of a publicly owned utility system, construction, erection, improvement or repair of dams, reservoirs, powerplants and electrical transmission lines of 230,000 volts and higher.

Exemptions

Construction of any public building used for facilities of juvenile forestry camps or juvenile homes, ranches, or camps established under Article 15 (commencing with Section 880) of Chapter 2 of Part 1 of Division 2 of the Welfare and Institutions Code, if a major portion of the construction work is to be performed by wards of the juvenile court assigned to those camps, ranches or homes, is exempt from the provisions of the Act.

In addition, in cases of great emergency, as determined by the governing body of the public agency, including, but not limited to, states of emergency defined in Section 8558 of the Government Code, when repair or replacements are necessary to permit the continued conduct of the operation or services of a public agency or to avoid danger to life or property, the governing body by majority vote, may proceed at once to replace or repair any public facility without adopting plans, specifications, strain sheets, or working details, or giving notice for bids to let contracts. The work may be done by day labor under the direction of the governing body, by contract, or by a combination of the two. The governing body, by majority vote, may delegate to the appropriate county administrative officer or city manager the power to declare a public emergency subject to confirmation by the governing body, by a four-fifths vote, at its next meeting.

Bid Limitations

For those agencies whose governing board has by resolution elected to become subject to the uniform construction cost accounting policies and procedures and which have notified the State Controller of that election, the following bid limitations will be in effect:

Public projects of twenty-five thousand dollars (\$25,000) or less may be performed by the employees of a public agency by force account (for definition see Section II), by negotiated contract, or by purchase order.

Public projects of one hundred thousand dollars (\$100,000) or less may be let to contract by informal procedures as set forth in this legislation.

If all bids received are in excess of one hundred thousand dollars (\$100,000), the governing body of the public agency may by adoption of a resolution by a four-fifths vote, award the contract, at one hundred ten thousand dollars (\$110,000), or less, to the lowest responsible bidder, if it determines the cost estimate of the public agency was reasonable.

Public projects of more than one hundred thousand dollars (\$100,000) shall, except as otherwise provided in this legislation, be let to contract by formal bidding procedure.

Award of Bid

The law allows the public agency to reject any bids presented. If after the first invitation for bids all bids are rejected, the public agency shall have the option, after reevaluating its cost estimates of the project, of one of the following:

The public agency may abandon the project or re-advertise for bids in the manner described by this legislation.

By passage of a resolution by a four-fifths majority of its governing body declaring that the project can be performed more economically by its employees, the public agency may have the project done by force account without further complying with this legislation.

If a contract is awarded, it shall be awarded to the lowest responsible bidder. If two or more bids are the same and the lowest, the public agency may accept the one it chooses.

If no bids are received, the project may be performed by employees of the public agency by force account or by informal bidding procedures set forth in Section 22034 of the Public Contract Code.

California Uniform Construction Cost Accounting Commission

Chapter 1054 created the California Uniform Construction Cost Accounting Commission (CUCCAC). The Commission is comprised of 14 members, 13 members appointed by the State Controller and one member of the Contractors' State License Board. Commission membership includes representatives from the construction industry who have experience as general contractors and subcontractors on public works construction projects; representatives of organized labor; and public agency officials who are involved in letting public works construction contracts.

The Commission is empowered to review and recommend for adoption by the State Controller uniform public construction cost accounting policies and procedures to be followed by public agencies in the performance of or in contracting for construction of public projects under this program.

Implementation

The public agency must perform several administrative steps to comply and elect into the law. The major steps include:

Notifying the State Controller of the election.

Adopting ordinances or regulations providing informal bidding procedures as required by the law.

Complying with the public construction cost accounting construction policies and procedures presented in this manual.

The CUCCAC shall review the accounting procedures of any participating public agency where an interested party presents evidence that the work undertaken by the public agency falls within any of the following categories:

Is to be performed by a public agency after rejection of all bids, claiming work can be done less expensively by the public agency.

Exceeded the force account limits.

Has been improperly classified as maintenance.

**SECTION II. UNIFORM PUBLIC CONSTRUCTION
COST ACCOUNTING POLICIES AND PROCEDURES**

The California Uniform Construction Cost Accounting Commission (CUCCAC) is responsible for the review and development of uniform public construction cost accounting policies and procedures to be followed by public agencies electing to participate in the program. This section of the manual discusses the basic philosophy and intent of the Commission in developing these cost accounting policies and procedures, the range of public construction projects that may be undertaken by a public agency that would utilize the cost accounting policies and procedures, and the support systems deemed necessary to comply with this program.

A. CUCCAC PHILOSOPHY

The policies and procedures, as dictated by the law, shall, to the extent deemed feasible and practicable, incorporate or be consistent with construction cost accounting guidelines and standards and reporting requirements utilized by state and federal agencies on public projects and be uniformly applicable to all public agencies which elect to utilize the policies and procedures. The Commission recognizes the wide divergence in the size, capabilities and scope of operations of various public agencies operating under this legislation. Therefore, in developing this manual the Commission wishes to present policies and procedures that are reasonable and do not demand extensive tracking of detail. The Commission feels that all cost elements -- personnel, materials, supplies and subcontracts, equipment and overhead -- associated with a project must be recorded and reported at the project level. Each of the cost elements is to be expressed in the initial bid/estimate process, captured and recorded during the construction period and compared to the initial estimate at the conclusion of the public project. This shall require the existence of a project tracking system, as discussed later in this section. The Commission refrains from dictating a specific system but requires a system to estimate for bidding purposes, and to capture the actual costs in a manner consistent with the bid estimate. In this manner, the policies and procedures are results-oriented.

B. APPLICABLE PROJECTS

In keeping with the Commission's objective of providing cost accounting policies and procedures that are specific in concept yet broad enough to encompass all public agencies regardless of size and scope of services, these policies and procedures should enable the public agencies to track all applicable construction-oriented public projects.

While allowing for the divergence of activities performed, these policies and procedures should parallel construction cost accounting practices as much as possible to allow for a comparability of private and public estimates and actual costs incurred in constructing public projects.

C. DEFINITIONS

The definitions listed below will assist users of this manual in interpreting and understanding the policies and procedures as stated in this manual. It is important to note that these definitions pertain only to the contents of this manual.

Cost Finding

Cost finding is a less formal method than project accounting of cost determination or estimation on an irregular basis. There may be no formal accounting entries during the year to record costs incurred in specific cost accounts. Instead, cost finding usually involves taking available fund financial accounting data and recording it and adjusting it to devise the cost data or estimate needed. This approach will be used in selected instances as defined in this manual.

Direct Costs

Direct costs represent economic resources that can be specifically identified with a particular construction activity or function. To the extent possible, such costs should be charged directly to the project for purposes of cost determination rather than being subjected to allocation procedures.

End Cost Objective

An end cost objective is a cost center or activity established for the accumulation of the direct cost of performing government services. All the costs should be considered to indirectly support the performance of these services.

Equipment Usage Tracking System

An equipment usage tracking system allows for the identification, recording, accumulation and reporting of usage of a specific piece of equipment or type of equipment and the unit of usage, e.g., hours, days, mileage, to a particular activity.

Force Account

A force account accurate for work performed on public projects using internal resources, including but not limited to labor, equipment, materials, supplies, and subcontracts of the public agency.

Government-Wide Overhead

Government-wide overhead is defined to include all costs of a public agency not associated with organizational units performing services which support all end cost objectives of the government entity.

Materials, Supplies, and Subcontracts Tracking System

A materials, supplies, and subcontracts tracking system allows for the identification, recording, accumulation, and reporting of materials, supplies, and subcontracts used on a particular activity.

Materiality

It is the Commission's position that, if the value of those goods obtained from inventory is material, the cost must be recorded to the public project code as a direct cost item. Materiality is defined for purposes of this manual to be any item that has a unit or aggregate value of \$25 or more.

Overhead Costs

Overhead costs represent economic resources that are employed for common or joint purposes benefiting several projects or functions. As such, overhead costs are not as readily chargeable to individual projects and, therefore, generally require allocation based upon statistical relationships.

Personnel Tracking System

A personnel tracking system allows for the identification, recording, accumulation, and reporting of personnel working on a particular activity.

Project Accounting

Project accounting is the continuous process of analyzing, classifying, recording, and summarizing cost data within the confines and controls of a formal project accounting system and reporting them to users on a regular basis.

Project Tracking System

A project tracking system allows for the identification and establishment of cost codes to particular activities. The system would be used to record, accumulate, and report personnel costs; equipment costs; material, supplies, and subcontracts costs; and allocated overhead to activities identified.

Public Project Unit

A public project unit is an identifiable organization of any size whose primary goals include the undertaking and completion of public projects. The Commission would, in general, consider a unit to be a public project unit when over 25% of the total unit's annual budget is expended on public projects. It is more common to have these organizational units in the larger public agencies - urban counties, cities, and school districts.

Subcontract

A subcontract provides for the use of an outside contractor with specialized skills and/or equipment needed to complete an element of work on the public project.

Unit Overhead

Unit overhead is defined as all costs incurred by an organizational unit, such as a public project unit, department, division or section, that are not directly attributable to any end cost objective, whether it be a public project or not. These costs include personnel costs, materials, supplies and subcontracts, and equipment costs not directly attributable to any end cost objective.

Work Order

A work order is written authorization for the performance of a particular project. It contains a description and location of the project and specifications for the work to be performed. Work orders are assigned an identification code and are used to record all costs both direct and indirect incurred in completing the project.

D. PUBLIC AGENCY ORGANIZATION STRUCTURE

In general, public agencies will contract out design-and-build and heavy construction projects and perform only general building projects and specialty construction projects with internal resources. Frequently, this decision to undertake general building and specialty construction projects is made based on the agency's organization structure, current workload requirements, and available staffing resources.

Often, in large organizations, due to the ongoing workload, there are organizational units whose stated objective is to undertake and complete on an as-needed basis general building and specialty construction projects. These organizational units are project-oriented. Their end cost objectives primarily consist of the performance of public projects. Costs specifically incurred in connection with individual end cost objectives are considered to be direct costs. Costs not specifically incurred to support individual and cost objectives are considered to be overhead costs associated with the organizational units taken as a whole. To recognize all the costs associated with an end cost objective, these overhead costs must be allocated back to these end cost objectives. Examples of end cost objectives include public projects, such as the construction of a warehouse, renovation of a lunch room, or street reconstruction and resurfacing

over 1 inch. Smaller public agencies, which comprise the majority of public agencies in the state, usually do not have organizational units whose annual budgets represent more than 25% of public project work. Frequently, these employees perform general maintenance duties in addition to working on public projects. The public project costs incurred by these employees are more difficult to identify yet equally important. The cost accounting standards discussed in Sections III, IV, V and VI have provided the needed flexibility to properly address the unique organizational structures of the varied participating public agencies.

E. CLASSIFICATION OF COSTS

It is the stated objective of the law and CUCCAC to have public agencies estimate the cost of public projects and then track these project costs in a manner similar to private industry. Essential to achieving this objective is the understanding and agreement by both parties as to the components of costs that are included in public projects.

The major classification of cost components for construction projects include: direct, indirect, and overhead costs.

1. Direct Costs

Direct costs include costs that can be specifically identified with a construction job and/or with a unit of production within a job.

Direct costs generally include these categories of costs: labor, equipment, permanent materials and supplies, subcontracts, nonpermanent materials and supplies, and miscellaneous costs. Components of each of these direct project cost categories are shown below and include costs applicable to the construction industry.

a. Labor

- Hourly Pay/Salary
- Payroll Taxes (Employer Contribution)
- Workers' Compensation Insurance (Allocation of Self Insurance)
- Group Health Insurance
- Group Life Insurance
- Retirement Plan (Employer Contribution)
- Holiday Leave
- Vacation
- Sick Leave
- Unassigned Time
- Disability Insurance
- Unemployment Insurance
- Military Leave
- Jury Duty Leave
- Management Leave/Compensatory Leave
- Uniform/Uniform Allowance
- Tuition Reimbursement
- Union Time Off
- Time Off for Illness or Death of Family Member
- Personal Liability Insurance
- Administration/Employer Contribution of Deferred Compensation Program/401K
- Overtime Premium

b. Equipment

(1) Internal Equipment Rate

Depreciation
Insurance (Allocation of Self Insurance)
Initial Assembling and Dismantling Costs
Maintenance Costs
Repair Costs
Provision for Major Overhauls
Unassigned Time
Maintenance and Storage Yard Facilities Costs
Fuel and Oil
Tires and Grease

(2) External Rate (Leased or Rented from Commercial Dealer)

Rental Rate
Maintenance Costs
Assembling and Dismantling Costs
Insurance Costs
Fuel and Oil
Tires and Grease

c. Permanent Materials and Supplies

(1) Cost of Permanent Materials and Supplies - Charged Directly to Job

Permanent Materials and Supplies Cost
Sales/Use Tax
Freight
Discounts Taken

(2) Cost of Permanent Materials and Supplies - Inventory

Inventory Cost (LIFO, FIFO, Average)
Handling
Warehouse and Transportation Costs
Spoilage, Loss and Theft

d. Subcontracts

Payments Made to Subcontractors

e. Nonpermanent Materials and Supplies/Miscellaneous Costs

Nonpermanent Materials and Supplies/Miscellaneous Costs
Permits
Fees
Performance Bonds
Licenses
Miscellaneous Costs

2. Indirect Costs

Indirect costs can be identified with a project but not with a specific job or unit of production within the project.

Indirect costs generally include two categories of costs: labor and other miscellaneous project site expenses. Components of each of these indirect cost categories are shown below.

a. Labor

- Quality Control and Inspection
- Field Supervisors
- Security Guards
- Superintendent
- Job Secretary

b. Other Project Expenses

- Mobilization, Assembly, Move-Out Costs
- Yarding and Hauling
- Trailer
- Utilities
- Telephone
- Warehouse Costs
- Spoilage, Loss and Theft
- Other Costs

3. Overhead Costs

Overhead costs cannot be identified with or charged to jobs or units of production unless some more or less arbitrary allocation basis is used.

Components of overhead are shown below and include costs applicable to the construction industry, public agencies or both, e.g., public agencies do not have to pay surety bond premiums as does the construction industry to perform construction work, but both have costs incurred due to the processing of payroll.

- Payroll
- Personnel
- Purchasing/Procurement
- Bid/Estimate Expense
- Advertising Expense
- Legal Costs
- General Government
- General Accounting/Finance
- Departmental Accounting/Finance
- Facilities
- Data Processing
- Top Management
- Management Expenses

Typically public agencies recognize only two classifications of costs: direct and overhead.

It is important to note that this does not suggest that public agencies exclude indirect costs but rather that they classify a majority of them as direct costs. For example, in the construction industry a foreman supervising employees working at the job site would have his personnel costs pooled and allocated to a job or unit of production. In a public agency, the foreman's labor cost would be charged directly to the appropriate public projects.

Regardless of the differences in how the various costs are classified, both the construction industry and public agencies recognize that the significant cost elements of any construction project include:

- Personnel
- Materials, Supplies and Subcontracts
- Equipment
- Overhead

F. PROJECT IDENTIFICATION

Public projects, as defined in Section I, shall be identified and given specific project codes. These codes are generally referred to as project or work order numbers. These codes shall enable the public agency to segregate the cost elements discussed above, thereby allowing for the proper estimation, tracking, and comparison of estimated vs. actual cost elements incurred at the completion of a public project.

G. PROJECT TRACKING

The public agency shall have a manual or automated system that records, accumulates, and periodically reports the cost elements - personnel; materials, supplies and subcontracts; equipment; and overhead - incurred in completing all public projects. The public agency shall be required to account for the costs of the public project in a manner consistent with the way in which the project was bid/estimated. An audit trail of the accumulation of these cost elements shall be maintained. Source documents shall be retained identifying costs incurred on the project. These documents may include timesheets, equipment tracking records, requisitions of materials and supplies used at the project site, and the documentation of the development of overhead rates. The project tracking system does not have to be a part of the public agency's fiscal system but should capture the major cost elements and comply with the other requirements stated in this manual. This may require the agency to establish a project tracking system or alter an existing cost accounting system.

1. Examples of Project Tracking Systems

Project tracking systems range widely in terms of the complexity of establishing and maintaining these systems. Most counties and larger school districts, cities, and special districts have established automated cost accounting systems which can track all identified public projects. Other project tracking systems include work order systems and project ledger card system.

Work orders are written authorizations for the performance of a particular project. They contain a description and location of the project and the specifications for the work to be performed. These authorizations, used extensively by public agencies, are assigned an identification code and are used to accumulate and report labor, materials and supplies, and other costs associated with the project. Work orders can be used to cost public project work, as well as maintenance work and other types of end cost objective work.

A project ledger card system establishes a single ledger card to be used in recording, in summary, all cost elements associated with a particular public project. This type of project tracking system (project ledger card) will be used in examples throughout this manual.

2. Discussion of Example

As shown in Exhibit II-1, a project ledger card has been established by the school district's accounting area to record the costs of remodeling the Main Street School. The following data elements are included on the ledger card to establish the public project:

Project Code
Start Date
End Date
Person Responsible for Work
Name of Project

A completed project ledger card is shown in Exhibit II-2 as an example of what information a project tracking system should contain upon completion of a project. This manual shows in detail how the postings through January 31, 2003, were recorded. From the last posting made in January a monthly total for job-to-date costs was calculated, subsequent labor and equipment posted, and the job closed. This completed example is for illustrative purposes only and to provide an overview of the sections to follow, and should not be considered a required format for public agencies operating under this program.

EXHIBIT II-1Project Ledger Card for
Main Street School RemodelingProject Code: #3359Name: Main Street School RemodelingStart Date: 1/7/03End Date: 2/28/03Foreman: Sanders

<u>Description</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor & Overhead</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
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EXHIBIT II-2

Project Ledger Card for Main Street
School Remodeling with Estimate, Labor, Materials
and Supplies and Equipment Posted

Project Code: #3359
Start Date: 1/7/03

Name: Main Street School Remodeling
End Date: 2/28/03

Foreman: Sanders

<u>Description</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor & Overhead</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
Cost Estimate	1/2/03	EB	\$3243	2533	180		5956
Labor	1/31/03	PR	652			652	
Carpeting	1/31/03	Inv #1		900		900	
Painting	1/31/03	Inv #2		1500		1500	
Subcontract							
Drywall	1/31/03	R #1		200		200	
Warehouse Charge	1/31/03	16.6%		33		33	
Equipment	1/31/03	FB 3			39	39	
Equipment	1/31/03	TSI			102	102	
Job-to-Date	1/31/03		652	2633	141	3426	
Labor	2/7/03	PR	2799			2799	
Equipment	2/7/03	FB 3			39	39	
Equipment	2/7/03	TSI			102	102	
Job-to-Date	2/28/03		3451	2633	282	6366	
Job Closed	2/28/03		3451	2633	282	6366	

H. ESTIMATED VS. ACTUAL COSTS

Upon identification of a public project and assignment of a project code, an estimate of all cost elements as discussed in Sections III, IV, V and VI shall be made and recorded to the project tracking system in a manner consistent with the way bids shall be requested. The estimate shall be predicated on the cost elements discussed in this manual and should be tracked accordingly by the project tracking system. This estimate shall include all direct and overhead costs anticipated to be incurred by the proposed public project. The Commission recognizes the existence of equipment rate books which can be utilized by the public agency in lieu of its existing data to estimate and report equipment costs. As well, the Commission recognizes the existence of established government-wide overhead allocation rates, such as A-87 and J-41A as shown in Appendices A and B, that may be used by public agencies for estimating and reporting their overhead costs associated with public projects. The use of these supplemental materials is discussed in greater detail in the appropriate sections. Each cost element - personnel; materials, supplies, and subcontracts; equipment; and overhead - shall be estimated for each public project. This estimation determines what bidding criteria the public project must come under.

1. Discussion of Example

The cost of remodeling the Main Street School has been estimated in Exhibit II-3. No standard format is required for the preparation of this estimate, but the estimate of the cost elements must be recorded to the project tracking system. An example of recording the estimate to a project ledger card is shown in Exhibit II-4. The total cost of performing the remodeling is less than the \$25,000 limit and can therefore be performed by force account.

The remaining sections of this manual discuss the significant cost elements in further detail:

- III. Personnel Costs
- IV. Materials, Supplies, and Subcontracts
- V. Equipment Costs
- VI. Overhead

EXHIBIT II-3Estimate of Main Street School RemodelingProject Code: #3359Name: Main Street School RemodelingEstimate Date: 1/2/03Start Date: 1/7/03Estimator: E. BlockPERSONNEL¹

	<u>Class</u>	<u>Dept.</u>	<u>Estimated Hours</u>	<u>Rate</u>	<u>Total</u>
1.	Maint. II	Bldg. Div.	100.00	\$22.19/hr ²	2219
2.	Maint. II	Mnt. Dep.	50.00	\$20.48/hr ²	<u>1024</u>
	Total Personnel Cost				<u>3343</u>

EQUIPMENT¹

	<u>Class of Equipment</u>	<u>Estimated Time/Mileage</u>	<u>Rate</u>	
1	Flatbed Truck	2 days	\$38.80/day	78 ³
2	Table Saw, 16" Blade	1 week	\$102.46/week	<u>102</u> ³
	Total Equipment Cost			<u>180</u>

MATERIALS, SUPPLIES AND SUBCONTRACTS¹

	<u>Quantity</u>	<u>Cost Per Quantity</u>	
1. Carpeting	400 sq. ft.	\$2/sq ft.	800
2. Painting-Subcontract			1500 ⁴
3. Drywall	10 panels	\$20/panel	200
4. Warehouse Handling/Carrying Charge (16.6%) on Drywall			<u>33</u>
Total Materials, Supplies and Subcontracts			<u>2533</u>
TOTAL COST ESTIMATE			<u>\$5956</u>

¹ Further discussion is provided in Sections III, IV and V.² Rate is the productive hourly rate plus overhead for a Maintenance Worker II. See Section III for further discussion on personnel costs.³ Amount was rounded to nearest whole dollar.⁴ Cost per bid submitted by painting subcontractor.

EXHIBIT II-4Project Ledger Card for Main Street School Remodeling
with Estimate PostedProject Code: #3359Name: Main Street School RemodelingStart Date: 1/7/03End Date: 2/28/03Foreman: Sanders

<u>Description</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
Cost Estimate	1/2/03	EB	3243	2533	180		5956

SECTION III. IDENTIFICATION, REPORTING AND COMPUTATION OF PERSONNEL COSTS

The accurate estimating, tracking and costing of personnel costs is imperative to ensure accurate reporting and future estimating of these costs. Personnel costs are those costs associated with employing public agency personnel in the performance of a specific job. They include three elements:

Annual salary or wage paid by the public agency.

Benefits received by employees such as a public agency's contribution to employee retirement programs, group health plans, and unemployment insurance.

Benefits paid to employee such as salaries or wages paid to employees who are on holidays, vacation leave, and sick leave.

This section of the manual describes the systems and methods used to track personnel time, determine the costs associated with personnel, and record these costs to a project tracking system.

A. TRACKING PERSONNEL TIME

Critical to the public agency's determination of personnel costs is the ability to identify time spent by employees performing work on all public projects.

1. Timekeeping System

A public agency shall have a timekeeping system which accumulates hours worked by employees and assigns these hours to all public project codes. Typically, this project code is assigned by the agency's accounting department and conveyed to the person responsible for the public project, generally the foreman. This system shall enable the agency to track hours worked on public projects to allow for the subsequent distribution of the appropriate personnel costs.

a. Examples of Timekeeping Systems

The simplest of all time records is a foreman's time book. These books usually have 50 pages and the foreman records on a daily or weekly basis the employee and his daily time spent on a particular project. These books have heavy tagboard covers so they can remain at the job site and be carried in a foreman's pocket. Typically, at the week's end, the foreman's time book is copied onto timesheets or timecards. This may be done at the central office by the foreman, timekeeper, payroll clerk or bookkeeper. This timekeeping system has the advantage of actual timekeeping being performed at the job site; but if the book is lost, the entire project's time record is lost.

Weekly timesheets or timecards can also be used to record time. These documents should be completed by employees at the end of the week showing the hours worked on each public project. For the employees to complete the cards or sheets, they must be informed of the appropriate project code to charge. This appears to be an insignificant issue; but without the establishment of a project code and the conveyance of that information to personnel working on the public project, the costs may never get recorded. This decentralization of timekeeping presents the opportunity for possible inaccuracies in the recording of time spent on public projects. Therefore, this system may warrant additional review by management.

Work orders can be used to record time by the appropriate employee. As discussed in the project tracking requirements, work orders are written authorization for the performance of a particular job containing a project code, a description and location of the job, and specifications for the work to be performed. Work orders are the most frequent public project timekeeping systems used by public agencies. These are generally completed by the supervisor of the public project who records the employees' time spent on a public project.

It is important to note that work performed on public projects, unlike timekeeping in the construction industry, requires close supervision by management to ensure that hours worked on end cost objectives as defined by this manual are recorded properly.

2. Application of Timekeeping Systems

As discussed earlier, there are two types of organizational units within public agencies which may perform public project work. These are (1) public project units and (2) other organizations that may, in addition to their primary duties, work on public projects.

a. Public Project Unit

A public project unit is an identifiable organizational unit of any size whose primary goals include the undertaking and completion of public projects. Typically, these units perform construction, reconstruction, erection, alteration, renovation, improvement, demolition, repair work, and painting of any publicly owned, leased, or operated facility. For example, a public works department may have a division/section comprised of employees who as defined by this bill are dedicated to the undertaking and completion of public projects such as road resurfacing, painting, landscaping and building/remodeling. The Commission would, in general, consider a unit to be a public project unit when over 25% of the total unit's annual budget is expended on public projects. It is more common to have these organizational units in the larger public agencies - urban counties, cities and school districts.

(1) Timekeeping Requirements

Employees who generally are considered direct labor and are assigned to a public project unit shall record their time on an hourly basis and record all hours of a full work day. This includes time spent on public projects as well as time spent on projects excluded from this program. Unassigned time by these employees will also be recorded and charged to an appropriate code.

Employees not performing labor on public projects, but who provide administrative support services to the employees of the public project unit, shall also record their time on an hourly basis and record all hours of a full work day. This time will be charged to an appropriate overhead account and will be used in the development of the organizational unit's overhead rate as discussed in Section VI.

All employees, whether performing direct labor or providing support services, shall have their time posted to the project tracking system on a periodic basis as discussed in Section II. An audit trail of all labor hours shall be maintained.

(2) Discussion of Example

Exhibit III-1 is an example of how a public project unit employee should record his time as discussed above. As noted, the employee has recorded on an hourly basis a full 40 hour work week. He has identified 32 hours spent performing work on specific public projects: 22 hours on remodeling the Main Street School, Work Order #3359, and 10 hours on weatherizing the district's administration building. Four hours were spent on miscellaneous maintenance work and 4 hours were spent waiting for assignment to a job.

b. Other Organizational Units Performing Work on Public Projects

There are other organizational units that have employees who perform work on public projects but whose primary goal is the performance of routine maintenance work and/or other general government services. Typically, these organizational units include: parks and recreation departments; divisions of public works agencies that have not been identified specifically as public project units, such as engineering; water and sewer; street maintenance; and routine maintenance.

(1) Timekeeping Requirements

Employees of these organizational units shall report time worked on public projects. Although the Commission strongly believes that it is advisable for employees to record an eight-hour day to various end cost objectives, work performed outside of public projects is excluded from the scope of the program and is not required to be reported. All time worked on public projects by a public agency employee shall be posted to a project tracking system on a timely basis with an adequate audit trail maintained.

(2) Discussion of Example

Exhibit III-2 is an example of how an employee of an organizational unit who performs work on a public project, but whose organization is not identified as a public project unit, must report his time. As noted, the employee has recorded only the time worked on a public project. Unit management, employees performing maintenance work, and unassigned employees need not record their time as do similar employees in a public project unit.

3. Recording Time to Public Projects

A public project's direct labor time shall be recorded to a project code under the following circumstances:

The employee worked on a public project.

The employee was in transit to or from a project site.

The employee performed clean-up work on a public project, e.g., the employee returned to central headquarters to complete paperwork attributable to a public project.

The employee was assigned to work on a public project but was unable to work due to unforeseen circumstances, e.g., equipment breakdown or inclement weather, and was therefore idle.

EXHIBIT III-1Public Project Unit Employee Weekly Time ReportWeek of: 1/31/03Name: J. StarUnit: Building DivisionClassification: Maintenance Worker II

Rate: _____

<u>Classification</u>	<u>M</u>	<u>T</u>	<u>W</u>	<u>T</u>	<u>F</u>	<u>S</u>	<u>S</u>	<u>Total</u>
#3359 - Main Street School - Remodel	8.00	8.00	6.00					22.00
#3401 Admin. Bldg. – Weatherization			2.00	8.00				10.00
#5015 - Maintenance					4.00			4.00
#0001 -Unassigned					4.00			<u>4.00</u>
	8.00	8.00	8.00	8.00	8.00			<u>40.00</u>

Recording Supervisor

EXHIBIT III-2

Organizational Unit Which Performs Work on
Public Project Unit - Employee Weekly Time Report

Week of: 1/31/03Name: H. TrippUnit: Maintenance DepartmentClassification: Maintenance Worker II

Rate:

<u>Classification</u>	<u>M</u>	<u>T</u>	<u>W</u>	<u>T</u>	<u>F</u>	<u>S</u>	<u>S</u>	<u>Total</u>
#3359 - Main Street School - Remodel	<u>8</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>8</u>
	8.00							<u>8</u>

* Performed 32 hours of general maintenance activities.

Recording Supervisor

B. COMPUTING PERSONNEL COSTS

In determining personnel costs, three different rates must be determined and applied: the employee's productive hourly rate, the department's overhead rate, and the general government overhead rate.

1. Productive Hourly Rate

Personnel costs in many public projects represent the single largest cost of a public project. In calculating these costs it is important to include the three components of personnel costs:

Annual salary/wages

Benefits received

Benefits paid

The calculation of an hourly rate integrating these three cost components is commonly called a "productive hourly rate."

A productive hourly rate shall be used to cost time reported to public projects. A productive hourly rate determines the full cost per hour of employing public agency personnel on a public project. A productive hourly rate is calculated by dividing annual personnel costs by an employee's available hours (as shown in Exhibit III-3) for work assignment.

a. Annual Personnel Cost

The annual personnel cost of an employee or class of employees shall be determined by the public agency. This cost shall include annual salary/wages and fringe benefits paid by the public agency.

Fringe benefits are generally calculated as a percentage of annual salary/wages or as an annual cost per employee.

If the productive hourly rate is calculated by employee class, members of each class should have reasonably comparable fringe benefits. Otherwise, further division of the employee class should be performed.

Fringe benefit calculations shall take into consideration, but not be limited to, the employer contribution portion of the following costs:

Disability insurance

Life insurance

Retirement plan

Unemployment insurance

Workers' compensation insurance

Personal liability insurance

EXHIBIT III-3Productive Hourly Rate Calculation Example

The following example indicates how to develop a productive hourly rate for each class of employee. This rate includes the cost of benefits as well as the reduced time available for work due to holidays, sick leave, etc. The following section is divided into three steps to demonstrate how to arrive at a productive hourly rate for a specified class of employee.

Step 1: Determine Annual Cost of Maintenance Worker II

Direct Salary	\$20,000
Benefits:	
Retirement contribution (18.5% of salary)	3,700
Workers' compensation insurance (6.4% of salary)	1,280
Unemployment insurance (.1% of salary)	20
Health insurance (\$95/month)	1,140
Life insurance (\$5/month)	<u>60</u>
	<u>\$26,200</u>
 Total Hours	 2080
Less:	
Holiday	(80)
Vacation (average)	(80)
Sick leave (average)	(70)
Other leave (average)	<u>(8)</u>
	<u>\$1,842</u>

Step 3: Calculate Productive Hourly Rate of Maintenance Worker II

$$\frac{\text{Annual cost}}{\text{Available working hours}} = \frac{\$26,200}{1,842} = \$14.22/\text{hour}$$

Note: Additional examples of how to calculate a productive hourly rate can be found in *Cost Accounting for California Cities: Concepts and Application*, Holder, William and Kirmer, Rick, 1981, and *Accounting Standards and Procedures for Counties*, Division of Accounting and Reporting.

The fringe benefits calculation is not required to include accrued benefits, such as sick leave or vacation earned but not taken, as a component of personnel costs. It is recognized that these accrued benefits represent a significant future cost to the public agency. Yet, many public agencies do not account for these costs and would have difficulty in developing accurate figures. If further pronouncements concerning accrued benefits of public agencies are issued, the Commission will determine whether inclusion of these costs are appropriate.

b. Productive Hours

The public agency shall start with the assumption of 2080 productive hours in a year if a 40-hour work week is the standard for the public agency. If a 40-hour work week is not the standard, the appropriate number of annual productive hours must be determined by the agency. The public agency shall then determine average annual nonproductive time either by employee, class of employee, or agency-wide. Nonproductive time is time when the employee is not available for work or assignment to work and includes but is not limited to:

Vacation

Sick leave

Holidays

Military leave

Jury duty

Training

2. Unit Overhead Rate

a. Public Project Unit

A unit overhead rate shall be developed for each public project unit. This unit overhead rate shall include all public project unit costs that are not direct costs. The overhead rate shall be developed and added to the productive hourly rate. For illustrative purposes, Exhibit III-4 shows the application of public project unit overhead to the productive hourly rate of a Maintenance Worker II who is an employee of this public project unit. Further detailed discussion of unit overhead rate development can be found in Appendix B.

b. Organizational Unit Performing Public Project Work

A unit overhead rate shall be developed for each organizational unit performing work on public projects in addition to its primary duties. This unit overhead rate shall include all of the organizational unit's costs that are not direct costs. The overhead rate should be developed and applied to the employee's productive hourly rate.

For illustrative purposes, Exhibit III-4 shows the application of an overhead rate to the productive hourly rate of a Maintenance Worker II who is an employee of a public project unit. Further detailed discussion of unit overhead rate development can be found in Appendix B.

3. Government-Wide Overhead Rate

A government-wide overhead rate shall be developed to include all costs of a public agency not associated with organizational units performing services which support all end cost objectives of the government entity. The government-wide rate shall be developed and applied to the productive hourly rate after unit overhead has been applied. For illustrative purposes, Exhibit III-4 shows the application of government-wide overhead to the productive hourly rate of the two Maintenance Workers assigned to the Building Division and Maintenance Department respectively. This calculation results in a fully-burdened labor rate.

Application of Overhead to a Productive Hourly Rate

The following example indicates how to develop a productive hourly rate and apply unit and general government overhead to a class of employee.

Step 1: Determine Annual Cost of Maintenance Worker II

Direct Salary	\$20,000
Benefits:	
Retirement contribution (18.5% of salary)	3,700
Workers' compensation insurance (6.4% of salary)	1,280
Unemployment insurance (.1% of salary)	20
Health insurance (\$95/month)	1,140
Life insurance (\$5/month)	60
	<u>\$26,200</u>

Step 2: Determine Available Working Hours of Employee Class

Total Hours	2080
Less:	
Holiday	(80)
Vacation (average)	(80)
Sick leave (average)	(70)
Other leave (average)	(8)
	<u>1,842</u>

Step 3: Calculate Productive Hourly Rate of Maintenance Worker II

Annual cost	=	\$26,200	=	\$14.22/hour
Available working hours		1,842		

Step 4: Apply Unit and Government-Wide Overhead

Unit Overhead

Building Division - Unit overhead rate is 30% (see Section VI).
Maintenance Department - Unit overhead is 20% (see Section VI).

Government-Wide Overhead

Government-wide overhead rate is 20% (agency's Circular A-87 rate).

Building Division employee - Maintenance Worker II
 130% x \$14.22 = \$18.49/hr. (with unit overhead).
 120% x \$18.49 = \$22.19/hr. (with unit and government-wide overhead).
 Maintenance Department employee - Maintenance Worker II
 120% x \$14.22 = \$17.06/hr. (with unit overhead).
 120% x \$17.06 = \$20.48/hr. (with unit and government-wide overhead).

See Section VI for the Commission's simplified overhead calculation and allocation method.

See Appendix B for further discussion on government-wide overhead rate development.

4 Discussion of Example

Exhibit III-5 shows the posting of the weekly personnel costs (productive hourly rate and overhead allocation) incurred in the remodeling of the Main Street School for the week of January 31, 2003. J. Star reported that he worked 22 hours on the project in Exhibit III-1. H. Tripp reported she worked 8 hours on the project in Exhibit III-2. J. Star's fully-burdened rate is \$22.19, while H. Tripp's fully-burdened rate is \$20.47, as calculated in Exhibit III-4. Hours worked on the remodeling are costed out as follows and the cost was posted to the ledger card as shown in Exhibit III-5.

<u>Personnel</u>	<u>Hours</u>	<u>Rate</u>	<u>Total</u>
J. Star	22.00	\$22.19	\$488.18
H. Tripp	8.00	\$20.47	<u>163.76</u>
			<u>\$651.94</u>

EXHIBIT III-5Project Ledger Card for Main Street School
with Estimate and Labor PostedProject Code: #3359Name: Main Street School RemodelingStart Date: 1/7/03End Date: 2/28/03Foreman: Sanders

<u>Description</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
Cost Estimate ¹	1/2/03	EB	3243	2533	180		5956
Labor	1/31/03	PR	\$ 652 ²			\$ 652	

¹ See Exhibit II-3.² Amount rounded to the nearest whole dollar.

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**SECTION IV. IDENTIFICATION, REPORTING AND COSTING
OF MATERIALS, SUPPLIES AND SUBCONTRACTS**

Materials, supplies and subcontracts used on public projects are considered a cost element by the Commission and include such items as lumber, bricks, cement, doors, paint, asphalt, wire, sand, gravel, pipe, and work performed under a subcontract. Materials and supplies used on public projects shall be tracked and charged to project codes as discussed in Section II and can be accounted for either as direct purchase or inventory.

This section of the manual describes the systems and methods used to track materials, supplies, and subcontracts; determine their value, as well as the other costs associated with providing materials and supplies; and record these costs to a project tracking system.

A. TRACKING MATERIALS AND SUPPLIES

The Commission wishes to provide policies and procedures so that public agencies account for public projects in a manner similar to the construction industry. The nature of governmental procurement and inventory practices presents challenges to the public agency's ability to meet the Commission's objective of effectively measuring material and supply costs for public projects.

1. Direct Purchases

Materials and supplies are often purchased directly for use on a public project. The public agency can thus identify the associated dollar value of items purchased to the public project code, which should be identified on the purchase order when the procurement is initiated.

2. Inventory

It is more difficult to identify the associated costs of items obtained from the public agency's inventory of materials and supplies, generally maintained at a warehouse or stockroom. The major challenge is identifying and recording the costs of material and supplies utilized for the public project which are obtained from the public agency's inventory. It is the Commission's position that, if the value of these goods obtained from inventory is material, the cost must be recorded to the public project code as a direct cost item.

Materiality is defined for purposes of this manual to be any item that has a unit or aggregate value of \$25 or more.

Items purchased and placed into inventory that would subsequently be used on public projects and which may exceed the \$25 limit shall be issued to projects in a manner consistent with good accounting controls. Requisitions or work orders should be required for these items, which may include, for example, the following:

Rough lumber	Doors
Reinforcing wire or steel	Nails
Pipe (concrete, clay, steel or cast iron)	Finish hardware
Conduit	Plumbing and electrical
Asphalt	Fixtures
Steel concrete forms	Sacked cement
Form ties and clamps	Plaster and lime
Bricks	Finish tile
Concrete blocks	Electric wire
Clay tile	Switchboxes
Metal lath	Acoustical tile
Finish lumber	Floor coverings
Aluminum or copper tubing	Hose
Sash	Sand
Paint	Gravel
	Drywall

B. COSTING MATERIALS AND SUPPLIES

1. Direct Purchase

The total material and supplies cost is the invoiced amount. This amount should be posted to the project tracking system for direct purchases on a timely basis. This recorded amount should include the cost of the materials and supplies, freight, sales tax, use tax and any other appropriate costs.

2. Inventory

The public agency shall have a method to provide for the valuation of the inventory it releases to public projects. Acceptable methods include:

FIFO (first-in, first-out) - The earliest acquired stock is assumed to be used first; the latest acquired stock is assumed to be still on hand. Therefore, when inventory is issued, it is valued at the cost of the earliest acquired stock.

LIFO (last-in, first-out) - The earliest acquired stock is assumed to be still on hand; the latest acquired stock is assumed to have been used immediately. Therefore, when inventory is issued, it is valued at the cost of the most recently (latest) acquired stock.

Weighted Average - In this type of inventory valuation system, each purchase of stock is aggregated with the former inventory balances so that a new average unit price is used to price the subsequent issues of inventory.

Recent Cost - The most recent unit cost is applied to units consumed, to yield total cost.

The method used by the public agency should be used consistently to prevent arbitrary fluctuation in inventory costs. Periodic physical inventories must be taken so that inventory shrinkage is reflected as an overhead item.

3. Discussion of Example

Exhibit IV-1 shows the posting of materials and supplies used on the Main Street School remodeling project. The carpeting was obtained through direct purchase and the drywall was obtained from the warehouse. Subcontract bids were requested for painting of the Main Street School and a competitive low bid of \$1,500 was accepted and awarded. The purchase orders issued by the division's purchasing department for the carpeting and the subcontractor for painting were coded to ensure that the costs of carpeting and painting were charged to the appropriate public project code. Subsequently, invoices were received from the vendor supplying the carpeting and the painting subcontractor. The amount from each of the invoices was posted to the project ledger card. The foreman requisitioned the drywall from the central warehouse using a work order form. The costed copy of the work order identifying the items issued was sent to the accounting area and posted to the project ledger card. A warehouse handling/carrying charge of 16.6% (see Exhibit IV-2) was applied to the requisitioned inventory, i.e., the drywall.

C. HANDLING/CARRYING COSTS

Personnel, equipment and facilities costs are incurred by the public agency to store and transport inventoried items. This is separate and distinct from the cost of procurement that is considered to be recaptured through general government overhead, as discussed in Section VI. (If warehousing and transportation costs are not provided by a central organization, it is assumed that these costs are recovered through the government-wide overhead rate.)

D. SUBCONTRACTS

A public agency may wish to complete work on a public project by subcontracting, i.e., hiring an outside contractor to perform a portion of work.

Subcontractors shall be accounted for in a manner similar to a direct purchase of materials and supplies. Contracts or purchase orders should be coded with the appropriate project code and the subcontract costs recorded onto the project tracking system in a timely manner.

EXHIBIT IV-1

Project Ledger Card for Main Street
School Remodeling with Estimate, Labor,
Materials, Supplies and Subcontracts Posted

Project Code: #3359 Name: Main Street School Remodeling Start Date: 1/7/03 End Date: 2/28/03 Foreman: Sanders

<u>Project Code</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
Cost Estimate ¹	1/2/03	EB	3243	1433	180		4856
Labor	1/31/03	PR	\$ 652			\$ 652	
Carpeting	1/31/03	Inv. #1		\$900		900	
Painting - Subcontract	1/31/03	Inv. #2		1500			1500
Drywall	1/31/03	R #1		200		200	
Warehouse Charge	1/31/03	16.6%			33 ²		33

¹ See Exhibit II-3.² Amount rounded to the nearest whole dollar.

The handling/carrying overhead rate shall be calculated to recover:

Warehouse/storeroom personnel costs

Facility costs of storeroom/warehouse:

Utilities
Rent
Insurance

Transportation costs associated with the receipt/delivery of materials and supplies.

See Exhibit IV-2 for an example of how a handling/carrying cost can be developed.

EXHIBIT IV-2Calculation of Handling/Carrying Overhead Rate

Annual Cost of Requisitioned Inventory		<u>\$400,000 = A</u>
Annual Inventory Handling/Carrying Costs:		
Warehouse Personnel:		
Warehouse Annual Salaries	60,000	
Fringe Benefits:		
Workers' Compensation	1,000	
Unemployment	500	
Retirement Plan	500	
Health Plan	<u>500</u>	
Warehouse Facility:		62,500
Annual Rent	1,200	
Utilities	<u>500</u>	
Transportation Costs:		1,700
Delivery Truck (Fuel, Maintenance, Tires)		<u>2,000</u>
Total Annual Carrying/Handling Costs of Inventory		<u>\$ 66,200 = B</u>
Carrying/Handling Charges as Percentage of		
Requisitioned Inventory = $\frac{B}{A}$		$\frac{\$ 66,200}{400,000} = 16.6\%$

Note: This percentage is applied to all requisitioned inventory to recover carrying/handling costs.

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SECTION V. IDENTIFICATION, REPORTING AND COSTING EQUIPMENT

Usage of equipment on public projects is a cost element of performing those public projects. Equipment usage, excluding passenger riding sedans, must be tracked when a piece of equipment is assigned to a public project. Equipment used on public projects shall be charged to a project cost code. This section describes the systems and methods used to track equipment usage, determine equipment cost, and record the costs to a project tracking system.

A. EQUIPMENT TRACKING SYSTEM

1. Equipment Tracking System

The public agency shall have a manual or automated system that tracks the appropriate equipment by time, mileage or other usage factor to a public project. The system shall have the capability to track equipment usage to a public project:

When it is in motion to/from a project site;

When at a public project site (whether in use or not), if time is the means of equipment tracking; and

When at a public project site and in use, if mileage or some other mechanism is the means of equipment tracking.

a. Examples of Equipment Tracking Systems

One of the simplest forms for tracking equipment is a weekly timesheet for each piece of equipment which has been assigned to the public project and the time or mileage incurred by the public project. These sheets should be submitted weekly with labor timesheets or cards. They should then be sent to the accounting area and charged to a project tracking system.

2. Equipment Tracking of Agency Owned/Operated Equipment

As will be seen in Section B, the public agency can cost out equipment it owns and operates in one of two ways. The public agency can either utilize internally developed equipment rates or rates from industry equipment rate books.

a. Internal Rates

When an agency develops internal equipment rates for certain or all types of equipment, that agency must track the time that equipment was used on end cost objectives such as public projects, maintenance work, and unassigned time. This enables the public agency to determine what the equipment's history of productive hours has been. This enables a better forecast of projected productive hours to be made for rate development purposes.

(1) Discussion of Example

Exhibit V-1 shows the weekly timesheet for the flatbed truck used on the Main Street School Remodeling. The truck's equipment rate was developed internally by the agency in accordance with the policies and procedures discussed in this section.

b. Equipment Rate Book Rates

When an agency utilizes the calculated equipment rate from rate books, it must record the time or mileage the equipment is used on public projects. Since these equipment rates generally factor in idle time, a full tracking of the equipment as performed for "internal rate" equipment is not mandated.

(1) Discussion of Example

Exhibit V-2 shows the weekly timesheet for the table saw used on the Main Street School Remodeling. The saw was delivered to the project site on Monday and was left there all week.

Therefore, the project was charged for a weekly rate of \$102.46. This rate was obtained from the Mechanical Contractors Association 1984 Tool and Equipment Guide.

Work orders can also be used to record equipment usage. Personnel issuing equipment would generally record the time/mileage when the equipment was issued and returned. Upon return of the equipment, the accounting area would receive the work order and would value and post the equipment usage costs.

B. EQUIPMENT USAGE RATES

There are three acceptable means of determining equipment rates. They include rates developed internally for public agency owned and operated equipment, equipment rate books used by the construction industry, and rental or lease rates charged by commercial vendors. Each of these methods attempts to recapture the costs associated with the equipment's purchase and operations, such as depreciation, fuel, maintenance, repair and insurance.

1. Internal Rates (Equipment Owned by Public Agency)

Public agencies shall utilize internally developed equipment usage rates that reflect the full cost of owning, operating and maintaining types of equipment. Rates should be developed for classes of equipment and should comply with the following guidelines:

The internal equipment rate methodology shall be documented and an adequate audit trail provided.

The costs of depreciation, fuel and oil, equipment storage, and income are to be included in the internally developed rates.

EXHIBIT V-1Equipment Weekly Timesheet for Main Street
School RemodelingWeek Ending: 1/31/03Equipment Code: Flatbed Truck - FB3

Rate:

	<u>Project Code</u>	<u>M</u>	<u>T</u>	<u>W</u>	<u>T</u>	<u>F</u>	<u>Total</u>
Main Street School Remodeling	#3359	8					8.00
Maintenance Work	#5400				8.00	8.00	16.00
Unassigned ¹			<u>8.00</u>	<u>8.00</u>			<u>16.00</u>
Total		8.00	8.00	8.00	8.00	8.00	40.00

Recording Supervisor¹ Unassigned time must be tracked if an agency is on the "internal rate" method.

EXHIBIT V-2Equipment Weekly Timesheet for Main Street
School RemodelingWeek Ending: 1/31/03Equipment Code: Table Saw - TSI

Recording Supervisor

Rate:

	<u>Project Code</u>	<u>M</u>	<u>T</u>	<u>W</u>	<u>T</u>	<u>F</u>	<u>Total</u>
Main Street School Remodeling	#3359	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>8.00</u>	<u>40.00</u>
Total		8.00	8.00	8.00	8.00	8.00	40.00

a. Depreciation

Depreciation is the method used to spread the cost of equipment, capital lease, or replacement value less residual value, over a piece of equipment's useful life. The public agency's capitalization policy should be used to determine whether a piece of equipment should be depreciated. Generally, equipment that costs more than \$1,000 and has a useful life of more than a year should be depreciated.

Depreciation should be calculated as follows.

- (1) Useful Life: Depreciation should be based on the average useful life for the piece of equipment in a particular operation. Determination of useful life should be based on actual or planned retirement and replacement practices.
- (2) Residual Value: Residual value is the value at disposition (less costs of disposal) estimated at the time of acquisition. In many cases, the estimated residual value is so small and occurs so far in the future that it has no significant impact. As well, residual value may be almost or completely offset by removal and dismantling costs. Normally, public agency equipment will be used through the end of its estimated useful life and the residual value may be carried at zero. In the event that it is known at the time of acquisition that the capital equipment will not be used for at least 75% of its scheduled useful life, residual value should be estimated.
- (3) Capital Improvements: Capital improvements are the costs of major overhauls and modifications that add value and prolong the life of a piece of equipment. These costs should be treated as capital expenditures and depreciated over the extended or remaining useful life of either the asset or improvement, whichever is less.
- (4) Straight Line Depreciation Method: The straight line depreciation method charges an equal amount for each period of useful life (generally a year). This method is considered the most practical and reasonable method for determining equipment usage costs.
- (5) Calculation of Depreciation Examples: Using the example in Exhibit V-3, annual depreciation for capitalized equipment will be estimated as follows:
 - (a) Start with the acquisition cost (purchase price) plus capital improvements, plus all other costs incurred to place the equipment in usage, e.g., transportation, installation. The public agency may choose to utilize replacement value for this calculation.
 - (b) Determine the useful life of the equipment, utilizing applicable guides such as the IRS guide.
 - (c) Compute annual depreciation by dividing the depreciable basis (acquisition cost plus capital improvements less residual value) by the useful life.

EXHIBIT V-3Equipment Depreciation Worksheet

	<u>a.</u>	<u>b.</u>	<u>c.</u>
	Depreciable Basis (Acquisition Cost Plus Capital Improvement <u>Less Residual Value</u>)	Useful <u>Life</u>	Annual Depreciation <u>a + b</u>
Equipment/Equipment <u>Identification</u> Flatbed Truck (1 ton)/FB3	\$17,975 ¹	5	\$3,595

¹ Purchase price (acquisition cost) was obtained from the invoice.

b. Maintenance and Repairs

These are costs (labor and parts) that are incurred for maintenance and repairs to keep the equipment in normal operating condition. These costs do not include capital improvements that add value to equipment and are accounted for under depreciation. Tires and grease are included in this classification of cost. Typically, a ledger card for each piece of equipment (see Exhibit V-4) will be necessary to record these costs.

c. Fuel and Oil

These costs include the labor and fuel costs of supplying the equipment with fuel of any type and oil.

d. Equipment Storage Costs

Equipment storage costs include the cost of facilities associated with the use of equipment. These costs include equipment yards, warehouse facilities, and the cost of guards and other security measures.

e. Insurance

These costs include the premiums paid by the public agency (whether self-insured or paid to an outside agency) for equipment insurance.

A sample approach to developing an internal equipment rate is shown in Exhibit V-5. As well, a good discussion of the calculation of internal equipment rates can be found in *Accounting Standards and Procedures for Counties* in the Road Fund Accounting section.

2 Equipment Rate Books (Equipment Owned by Public Agency)

Public agencies that own equipment used on public projects but do not calculate internal equipment rates shall utilize appropriate private industry equipment rate books. It is understood that industrial rates may include certain costs that are not incurred by public agencies, such as personal property taxes paid on the assessed value of the equipment and interest charges. However, these equipment usage rates in some cases do not include: the cost of fuel or other energy costs to operate a particular piece of equipment; the cost of preparatory work performed before a piece of equipment can be made operative; the costs of dies, blades or welding rods that are normally consumed in the operation of a piece of equipment; or the costs of extraordinary wear and tear. Therefore, the use of industrial rates is assumed to provide a reasonable approximation of internal rates.

Equipment rate books that are acceptable to the Commission for use in lieu of internal rates include:

Caltrans Labor Surcharge and Equipment Rental Rates

Mechanical Contractors Association Tool and Equipment Rental Guide

National Electrical Contractors Association Tool and Equipment Rental Schedule

Use of other guides must first be reviewed and approved by the Commission.

These guides are maintained and updated on a periodic basis by the appropriate agency or association to accurately reflect current costs associated with equipment usage. If a piece of equipment or comparable piece of equipment is not included in an established guide, an internal rate shall be developed or a documented quote from an equipment leasing or rental agency may be utilized.

EXHIBIT V-4

Maintenance and Repair
Equipment Ledger Card

Equipment: Flatbed Truck - FB3

Purchase Date: 5/03

Estimated Life: 5 years

Salvage Value: 0

<u>Date</u>	<u>Ref.</u>	<u>Labor</u>	<u>Materials & Supplies</u>	<u>Other</u>	<u>Total</u>	<u>Total Costs to Date</u>
1/10/01	W.O. #111 ¹	\$101	\$120	\$20	\$ 241	\$ 241
4/18/02	W.O. #325 ²	\$450	\$220		\$ 670	\$ 911
6/11/03	W.O. #491 ³	\$101	\$600		\$ 701	\$1,612
Allocation of Shop Overhead for 1983-84					<u>\$ 144</u>	\$1,756
Total Shop Maintenance and Repairs, Tire and Grease Costs for 1983-84					<u>\$1,756</u>	

¹ Detail for this repair is located on Work Order #111.

² Detail for this repair is located on Work Order #325.

³ Detail for this replacement of four tires is located on Work Order #491.

EXHIBIT V-5Equipment Rate Development

Flatbed Truck - FB3

<u>Projected Annual Costs</u>	Upcoming Projected Year 2003-04	Prior Year Actual 2002-03
Depreciation	3595 ¹	3595 ¹
Shop Maintenance and Repairs, Tires and Grease	1844 ³	1756 ²
Fuel and Oil	4206 ⁵	4006 ⁴
Equipment Storage Costs	641 ⁶	641 ⁶
Insurance	<u>422</u> ⁷	<u>422</u> ⁷
	10708	10420
Projected Hours of Use	276.00 ⁸	276.00 ⁸
Hourly Rate	<u>38.80</u>	<u>37.75</u>

¹ See Exhibit V-3.² See Exhibit V-4 for recording of expenses to Equipment Ledger Card.³ Shop Maintenance and Repairs, Tires and Grease costs are projected to increase 5% from the prior year.⁴ Fuel and oil costs are tracked and accumulated on the public agency's fuel and oil log.⁵ Fuel and oil costs are projected to increase by 5% from the prior year.⁶ Equipment storage costs are accumulated through a cost finding study and allocated on a unit basis. No increase is anticipated from the prior year.⁷ Insurance costs are accumulated through a cost finding study. No increase is calculated from the prior year.⁸ Projected hours of use are estimated to be the same as the prior year's actual use.

3. Rental or Lease Rates

Rented or leased equipment to be used partially or completely on public projects shall be tracked and have the appropriate amount charged to the public project. Additional costs associated with the leasing or renting of equipment used partially on a public project shall be charged on a pro rata basis, if appropriate to that project. Costs related to renting or leasing equipment generally include, but are not limited to:

Rates

Moving, loading, and assembly costs

Maintenance and repairs

Insurance

Fuel (under some rate schedules)

4. Discussion of Example

Exhibit V-6 shows the posting of the flatbed truck and the table saw used on the Main Street School remodeling project the week of January 31, 2003. The foreman used the truck to pick up and deliver part of the drywall to the school. He had the flatbed truck at the project site all day; therefore, the project was charged for a day of use. The flatbed truck is owned by the school district, and an internal equipment usage rate of \$38.00 per day had been developed (see Exhibit V-4). The table saw was at the project site for the entire week and, therefore, the project was charged for a weekly rate of \$102. This rate was obtained from the *Mechanical Contractors Association 1984 Tool and Equipment Guide*, which is an approved equipment rate book.

EXHIBIT V-6

Project Ledger Card for Main Street
School Remodeling with Estimate, Labor, Materials
and Supplies and Equipment Posted

Project Code: #3359Name: Main Street School RemodelingStart Date: 1/7/03End Date: 2/28/03Foreman: Sanders

<u>Description</u>	<u>Date</u>	<u>Ref.</u>	<u>Labor</u>	<u>Materials, Supplies & Subcontracts</u>	<u>Equipment</u>	<u>Total Cost</u>	<u>Total Estimate</u>
Cost Estimate	1/2/03	EB	3243	2533	180		5956
Labor	1/31/03	PR	652			\$ 652	
Carpeting	1/31/03	Inv. #1		900		900	
Painting - Subcontract	1/31/03	Inv. #2		1500		1500	
Drywall	1/31/03	R #1		200		200	
Warehouse Charge	1/31/03	16.6%		33		33	
Equipment	1/31/03	FB 3			39	39	
Equipment	1/31/03	TS1			102	102	

¹ Amount was rounded to the nearest whole dollar.

**SECTION VI. IDENTIFICATION, RATE DEVELOPMENT AND
ALLOCATION OF OVERHEAD**

A. COMMISSION ADOPTED SIMPLIFIED OVERHEAD RATE

In order to simplify the overhead calculation process, the Commission has adopted an overhead rate of 20%, which shall be applied to all direct costs of the project. EXHIBIT VI-1 and EXHIBIT VI-2 are sample forms to illustrate the application of the Commission is adopted 20% overhead rate.

In lieu of the Commission's adopted rate, agencies may elect to calculate their overhead rates by one of the three following methods.

- 1) Appendix A describes the federal government's method of calculating overhead (Circular A-87).
- 2) Appendix B describes a method of calculating overhead by allocating overhead costs as a percentage of direct labor costs.
- 3) Any method of calculating overhead is satisfactory with the Commission, provided that acceptable accounting procedures are used and all administrative costs are included.

Section II, C, DEFINITIONS, lists items that define overhead as follows.

Overhead Costs

Overhead costs represent economic resources that are employed for common or joint purposes benefiting several projects or functions. As such, overhead costs are not readily chargeable to individual projects and, therefore, generally require allocation based upon statistical relationships.

Unit Overhead

Unit overhead is defined as all costs incurred by an organizational unit, such as a public project unit, Department, Division, or Section that are not directly attributable to any cost objective whether it is a public project or not. These costs include personnel costs, materials, supplies, and subcontracts and equipment costs not directly attributable to any end cost objective.

Government-Wide Overhead

Government-wide overhead is defined as all costs of a public agency not associated with organizational units performing services which support all end cost objectives of the government entity.

End Cost Objective

An end cost objective is a cost center or activity established for the accumulation of the direct cost of performing government services. All costs should be considered to indirectly support the performance of these services.

Public Project Unit

A public project unit is an identifiable organization of any size whose primary goals include the undertaking and completion of public projects. The Commission would, in general, consider a unit to be a public project unit when over 25% of the total unit's annual budget is expended on public projects. It is more common to have these organizational units in the larger public agencies - urban counties, cities, and school districts.

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(logo, address, phone no., etc.)

Public Agency Force Account
Daily Extra Works Report

REPORT NO. _____

PROJECT TITLE _____ DATE PERFORMED _____ AMOUNT AUTHORIZED \$ _____

PREVIOUS EXPENDITURE \$ _____
 PROJECT NO. _____ LOCATION _____ DATE OF REPORT _____ TODAY \$ _____
 TO DATE

WORK PERFORMED BY _____

DESCRIPTION OF WORK _____ Account No. _____

EQUIPMENT

Equip. No.	Description	Hours	Hourly Rate	Extended Amounts	LABOR P.R. No.	Name	Hours
---------------	-------------	-------	----------------	---------------------	----------------------	------	-------

TOTAL DIRECT EQUIPMENT COST B

MATERIAL and/or WORK done by specialists

Description	No.	Unit	Unit Cost
-------------	-----	------	-----------

TOTAL DIRECT MATERIALS/WORK C

Added Percentage (Fringes, etc.)

Subsistence No. @ \$

Travel expense No. @ \$

Other

TOTAL DIRECT LABOR COST

MATERIAL/WORK

Submitted - Field Representative

Reviewed - Supervisor

SUBTOTAL
 OVERHEAD (20% OF D)
 TOTAL DAILY COST:

Public Agency Force Account
Project Cost Summary

EXHIBIT VI-2

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 (logo, address, phone no., etc.)

Project Title _____

Project No. _____ Location _____

PERIOD WORK PERFORMED:

Account No. _____

Description of Work _____

DATE	LABOR (A)	EQUIPMENT (B)	MATERIAL (C)	SUBTOTAL (D)	OVERHEAD (20% OF DIRECT COSTS) (E)	TOTAL
------	--------------	------------------	-----------------	-----------------	--	-------

PAGE ____ OF ____

TOTAL PROJECT COST: _____

APPENDIX A

FEDERAL CIRCULAR #A-87 PRINCIPLES FOR DETERMINING COSTS APPLICABLE TO GRANTS AND CONTRACTS WITH STATE, LOCAL, AND FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS

APPENDIX A

January 15,

CIRCULAR NO. A-87
Revised

TO THE HEADS OF EXECUTIVE DEPARTMENTS AND ESTABLISHMENTS

SUBJECT: Cost principles for State and local governments

1. Purpose. This Circular establishes principles and standards for determining costs applicable to grants, contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments.
2. Supersession. This Circular supersedes Federal Management Circular 74-4 as revised. The Circular is reissued under its original designation of OMB Circular A-87.
3. Summary of changes. No substantive changes are made in the Circular.
4. Policy intent. This Circular provides principles for determining the allowable costs of programs administered by State, local, and federally-recognized Indian tribal governments under grants from and contracts with the Federal Government. They are designed to provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between grantees and the Federal Government. The principles are for determining costs only and are not intended to identify the circumstances nor to dictate the extent of Federal and State or local participation in the financing of a particular project. They are designed to provide that federally-assisted programs bear their fair share of costs recognized under these principles except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.
5. Applicability and scope.
 - a. The provisions of this Circular apply to all Federal agencies responsible for administering programs that involve grant and contracts with State, local, and federally-recognized Indian tribal governments.
 - b. Its provisions do not apply to grants and contracts with:
 - (1) Publicly-financed educational institutions subject to Office of Management and Budget Circular A-21, and
 - (2) Publicly owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

Any other exceptions will be approved by the Office of Management and Budget in particular cases where adequate justification is presented.

6. Attachments. The principles and related policy guides are set forth in the attachments, which are:

Attachment A - Principles for determining costs applicable to grants and contracts with State, local, and federally-recognized Indian tribal governments.

Attachment B - Standards for selected items of cost.
7. Inquiries. Further information concerning this Circular may be obtained by contacting the Financial Management Branch, Budget Review Division, Office of Management and Budget, Washington, D.C. 20503, telephone 202-395-4773.

James T. McIntyre, Jr.
Director

Attachments

**PRINCIPLES FOR DETERMINING COSTS APPLICABLE
TO GRANTS AND CONTRACTS WITH STATE, LOCAL, AND
FEDERALLY RECOGNIZED INDIAN TRIBAL GOVERNMENTS**

APPENDIX A

A. PURPOSE AND SCOPE

1. Objectives This Attachment sets forth principles for determining the allowable costs of programs administered by State, local, and federally-recognized Indian tribal governments under grants from and contracts with the Federal Government. The principles are for the purpose of cost determination and are not intended to identify the circumstances or dictate the extent of Federal and State or local participation in the financing of a particular grant. They are designed to provide that federally-assisted programs bear their fair share of costs recognized under these principles, except where restricted or prohibited by law. No provision for profit or other increment above cost is intended.
2. Policy Guides The application of these principles is based on the fundamental premises that:
 - a. State, local, and federally-recognized Indian tribal governments are responsible for the efficient and effective administration of grant and contract programs through the application of sound management practices.
 - b. The grantee or contractor assumes the responsibility for seeing that federally-assisted program funds have been expended and accounted for consistent with underlying agreements and program objectives.
 - c. Each grantee or contractor organization, in recognition of its own unique combination of staff facilities and experience, will have the primary responsibility for employing whatever form of organization and management techniques may be necessary to assure proper and efficient administration.
3. Application These principles will be applied by all Federal agencies in determining costs incurred by State, local and federally recognized Indian tribal governments under Federal grants and cost reimbursement type contracts (including subgrants and subcontracts) except those with (a) publicly-financed educational institutions subject to Office of Management and Budget Circular A-21, and (b) publicly-owned hospitals and other providers of medical care subject to requirements promulgated by the sponsoring Federal agencies.

B. DEFINITIONS

1. Approval or Authorization of the Grantor Federal Agency means documentation evidencing consent prior to incurring specific cost.
2. Cost Allocation Plan means the documentation identifying, accumulating, and distributing allowable costs under grants and contracts together with the allocation methods used.
3. Cost, as used herein, means cost as determined on a cash, accrual, or other basis acceptable to the Federal grantor agency as a discharge of the grantee's accountability for Federal funds.
4. Cost Objective means a pool, center, or area established for the accumulation of cost. Such areas include organizational units, functions, objects or items of expense, as well as ultimate cost objectives including specific grants, projects, contracts, and other activities.
5. Federal Agency means any department, agency, commission, or instrumentality in the executive branch of the Federal Government which makes grants to or contracts with State, local, or federally-recognized Indian tribal governments.

6. Federally-recognized Indian Tribal Governments means the governing body or a governmental agency of any Indian tribe, band, nation, or other organized group or community (including any native village as defined in Section 3 of the Alaska Native Claims Settlement Act, 85 Stat. 688) certified by the Secretary of Interior as eligible for the special programs and services provided by him through the Bureau of Indian Affairs.
7. Grant means an agreement between the Federal Government and a State, local, or federally-recognized Indian tribal government whereby the Federal Government provides funds or aid in kind to carry out specified programs, services, or activities. The principles and policies stated in this Circular as applicable to grants in general also apply to any federally-sponsored cost reimbursement-type of agreement performed by a State, local, or federally-recognized Indian tribal government.
8. Grant Program means those activities and operations of the grantee which are necessary to carry out the purposes of the grant, including any portion of the program financed by the grantee.
9. Grantee means the department or agency of State, local, or federally-recognized Indian tribal government which is responsible for administration of the grant.
10. Local Unit means any political subdivision of government below the State level.
11. Other State or Local Agencies means departments or agencies of the State or local unit which provide goods, facilities, and services to a grantee.
12. Services, as used herein, means goods and facilities, as well as services.
13. Supporting Services means auxiliary functions necessary to sustain the direct effort involved in administering a grant program or an activity providing service to the grant program. These services may be centralized in the grantee department or in some other agency, and include procurement, payroll, personnel functions, maintenance and operation of space, data processing, accounting, budgeting, auditing, mail and messenger service, and the like.

C. BASIC GUIDELINES

1. Factors Affecting Allowability of Costs. To be allowable under a grant program, costs must meet the following general criteria:
 - a. Be necessary and reasonable for proper and efficient administration of the grant programs, be allocable thereto under these principles, and, except as specifically provided herein, not be a general expense required to carry out the overall responsibilities of State, local, or federally-recognized Indian tribal governments.
 - b. Be authorized or not prohibited under State or local laws or regulations.
 - c. Conform to any limitations or exclusions set forth in these principles, Federal laws, or other governing limitations as to types or amounts of cost items.
 - d. Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part.
 - e. Be accorded consistent treatment through application of generally accepted accounting principles appropriate to the circumstances.
 - f. Not be allocable to or included as a cost of any other federally financed program in either the current or a prior period.
 - g. Be net of all applicable credits.

APPENDIX A

2. Allocable Costs

- a. A cost is allocable to a particular cost objective to the extent of benefits received by such objective.
- b. Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.
- c. Where an allocation of joint cost will ultimately result in charges to a grant program, an allocation plan will be required as prescribed in Section J.

3. Applicable Credits

- a. Applicable credits refer to those receipts or reduction of expenditure-type transactions which offset or reduce expense items allocable to grants as direct or indirect costs. Examples of such transactions are: purchase discounts; rebates or allowances, recoveries or indemnities on losses; sale of publications, equipment, and scrap; income from personal or incidental services; and adjustments of overpayments or erroneous charges.
- b. Applicable credits may also arise when Federal funds are received or are available from sources other than the grant program involved to finance operations or capital items of the grantee. This includes costs arising from the use or depreciation of items donated or financed by the Federal Government to fulfill matching requirements under another grant program. These types of credits should likewise be used to reduce related expenditures in determining the rates or amounts applicable to a given grant.

D. COMPOSITION OF COST

1. Total Cost The total cost of a grant program is comprised of the allowable direct cost incident to its performance, plus its allocable indirect costs, less applicable credits.
2. Classification of Costs There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential, therefore, that each item of cost be treated consistently either as a direct or an indirect cost. Specific guides for determining direct and indirect costs allocable under grant programs are provided in the sections which follow.

E. DIRECT COSTS

1. General Direct costs are those that can be identified specifically with a particular cost objective. These costs may be charged directly to grants, contracts, or to other programs against which costs are finally lodged. Direct costs may also be against which costs are finally lodged. Direct costs may also be charged to cost objectives used for the accumulation of costs pending distribution in due course to grants and other ultimate cost objectives.
2. Application Typical direct costs chargeable to grant programs are:
 - a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs.
 - b. Cost of materials acquired, consumed, or expended specifically for the purpose of the grant.
 - c. Equipment and other approved capital expenditures.
 - d. Other items or expense incurred specifically to carry out the grant agreement.
 - e. Services furnished specifically for the grant program by other agencies, provided such charges are consistent with criteria outlined in Section G of these principles.

F. INDIRECT COSTS

1. General Indirect costs are those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools and indirect costs within a grantee department or in other agencies providing services to a grantee department. Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.
2. Grantee Departmental Indirect Costs All grantee departmental indirect costs, including the various levels of supervision, are eligible for allocation to grant programs provided they meet the conditions set forth in this Circular. In lieu of determining the actual amount of grantee departmental indirect cost allocable to a grant program, the following methods may be used.
 - a. Predetermined Fixed Rates for Indirect Costs A predetermined fixed rate for computing indirect costs applicable to a grant may be negotiated annually in situations where the cost experience and other pertinent facts available are deemed sufficient to enable the contracting parties to reach an informed judgment (1) as to the probable level of indirect costs in the grantee department during the period to be covered by the negotiated rate, and (2) that the amount allowable under the predetermined rate would not exceed actual indirect cost.
 - b. Negotiated Lump Sum for Overhead A negotiated fixed amount in lieu of indirect costs may be appropriate under circumstances where the benefits derived from a grantee department's indirect services cannot be readily determined as in the case of small, self-contained or isolated activity. When this method is used, a determination should be made that the amount negotiated will be approximately the same as the actual indirect cost that may be incurred. Such amounts negotiated in lieu of indirect costs will be treated as an offset to total indirect expenses of the grantee department before allocation to remaining activities. The base on which such remaining expenses are allocated should be appropriately adjusted.
3. Limitation on Indirect Costs
 - a. Federal grants may be subject to laws that limit the amount of indirect costs that may be allowed. Agencies that sponsor grants of this type will establish procedures which will assure that the amount actually allowed for indirect costs under each such grant does not exceed the maximum allowable under the statutory limitation or the amount otherwise allowable under this Circular, whichever is the smaller.
 - b. When the amount allowable under a statutory limitation is less than the amount otherwise allocable as indirect costs under this Circular, the amount not recoverable as indirect costs under a grant may not be shifted to another federally-sponsored grant program or contract.

G. COST INCURRED BY AGENCIES OTHER THAN THE GRANTEE

1. General The cost of service provided by other agencies may only include allowable direct costs of the service plus a pro rata share of allowable supporting costs (Section B.12.) and supervision directly required in performing the service, but not supervision of a general nature such as that provided by the head of a department and his staff assistants not directly involved in operations. However, supervision by the head of a department or agency whose sole function is providing the service furnished would be an eligible cost. Supporting costs include those furnished by other units of the supplying department or by other agencies.
2. Alternative Methods of Determining Indirect Cost In lieu of determining actual indirect cost related to a particular service furnished by another agency, either of the following alternative methods may be used provided only one method is used for a specific service during the fiscal year involved.

APPENDIX A

- a. Standard Indirect Rate An amount equal to ten percent of direct labor cost in providing the service performed by another State agency (excluding overtime, shift, or holiday premiums and fringe benefits) may be allowed in lieu of actual allowable indirect cost for that service.
- b. Predetermined Fixed Rate A predetermined fixed rate for indirect cost of the unit or activity providing service may be negotiated as set forth in Section F.2.a.

H. COST INCURRED BY GRANTEE DEPARTMENT FOR OTHERS

1. General The principles provided in Section G will also be used in determining the cost of services provided by the grantee department to another agency.

J. COST ALLOCATION PLAN

1. General A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges.
2. Requirements The allocation plan of the grantee department should cover all joint costs of the department as well as costs to be allocated under plans of other agencies or organizational units which are to be included in the costs of federally-sponsored programs. The cost allocation plans of all the agencies rendering services to the grantee department, to the extent feasible, should be presented in a single document. The allocation plan should contain, but not necessarily be limited to, the following:
 - a. The nature and extent of services provided and their relevance to the federally-sponsored programs.
 - b. The items of expense to be included.
 - c. The methods to be used in distributing cost.
3. Instructions for Preparation of Cost Allocation Plans The Department of Health and Human Services in consultation with the other Federal agencies concerned, will be responsible for developing and issuing the instructions for use by grantees in preparation of cost allocation plans. This responsibility applies to both central support services at the State, local, and Indian tribal level and indirect cost proposals of individual grantee departments.
4. Negotiation and Approval of Indirect Cost Proposals for States
 - a. The Department of Health and Human Services, in collaboration with the other Federal agencies concerned, will be responsible for negotiation, approval, and audit of cost allocation plans, which will be submitted to it by the States. These plans will cover central support service costs of the State.
 - b. At the grantee department level in a State, a single cognizant Federal agency will have responsibility similar to that set forth in a, above, for the negotiation, approval, and audit of the indirect cost proposal. A current list of agency assignments is maintained by the Office of Management and Budget.
 - c. Questions concerning the cost allocation plans approved under a. and b. above, should be directed to the agency responsible for such approvals.
5. Negotiation and Approval of Indirect Cost Proposals for Local Governments
 - a. Cost allocation plans will be retained at the local government level for audit by a designated Federal agency except in those cases where that agency requests that cost allocation plans be submitted to it for negotiation and approval.

- b. A list of cognizant Federal agencies assigned responsibility for negotiation, approval and audit of central support service cost allocation plans at the local government level is maintained by the Office of Management and Budget.
 - c. At the grantee department level of local governments, the Federal agency with the predominant interest in the work of the grantee department will be responsible for necessary negotiation, approval and audit of the indirect cost proposal.
6. Negotiation and Approval of Indirect Cost Proposals for Federally Recognized Indian Tribal Governments
The Federal agency with the predominant interest in the work of the grantee department will be responsible for necessary negotiation, approval and audit of the indirect cost proposal.
7. Resolution of Problems To the extent that problems are encountered among the Federal agencies in connection with 4 and 5 above, the Office of Management and Budget will lend assistance as required.

APPENDIX A

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STANDARDS FOR SELECTED ITEMS OF COSTS

APPENDIX A

A. PURPOSE AND APPLICABILITY

1. Objective This Attachment provides standards for determining the allowability of selected items of cost.
2. Application These standards will apply irrespective of whether a particular item of cost is treated as direct or indirect cost. Failure to mention a particular item of cost in the standards is not intended to imply that it is either allowable or unallowable, rather determination of allowability in each case should be based on the treatment of standards provided for similar or related items of cost. The allowability of the selected items of cost is subject to the general policies and principles stated in Attachment A of this Circular.

B. ALLOWABLE COSTS

1. Accounting The cost of establishing and maintaining accounting and other information systems required for the management of grant programs is allowable. This includes costs incurred by central service agencies for these purposes. The cost of maintaining central accounting records required for overall State or Indian tribal government purposes, such as appropriation and fund accounts by the Treasurer, Controller, or similar officials, is considered to be a general expense of government and is not allowable.
2. Advertising Advertising media includes newspapers, magazines, radio and television programs, direct mail, trade papers, and the like. The advertising costs allowable are those which are solely for:
 - a. Recruitment of personnel required for the grant program.
 - b. Solicitation of bids for the procurement of goods and services required.
 - c. Disposal of scrap or surplus materials acquired in the performance of the grant agreement.
 - d. Other purposes specifically provided for in the grant agreement.
3. Advisory Councils Costs incurred by State advisory councils or committees established pursuant to Federal requirements to carry out grant programs are allowable. The cost of like organizations is allowable when provided for in the grant agreements.
4. Audit Service The cost of audits necessary for the administration and management of functions related to grant programs is allowable.
5. Bonding Costs of premiums on bonds covering employees who handle grantee agency funds are allowable.
6. Budgeting Costs incurred for the development, preparation, presentation, and execution of budgets are allowable. Costs for services of a central budget office are generally not allowable since these are costs of general government. However, where employees of the central budget office actively participate in the grantee agency's budget process, the cost of identifiable service is allowable.
7. Building Lease Management The administrative cost for lease management which includes review of lease proposals, maintenance of a list of available property for lease, and related activities is allowable.

8. Central Stores The cost of maintaining and operating a central stores organization for supplies, equipment, and materials used either directly or indirectly for grant programs is allowable.
9. Communications Communication costs incurred for telephone calls or service, teletype service, wide area telephone service (WATS), centrex, telpak (tie lines), postage, messenger service and similar expenses are allowable.
10. Compensation for Personal Services
 - a. General Compensation for personal services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under the grant agreement, including but not necessarily limited to wages, salaries, and supplementary compensation and benefits (Section B.13.). The costs of such compensation are allowable to the extent that total compensation for individual employees: (1) is reasonable for the services rendered; (2) follows an appointment made in accordance with State, local, or Indian tribal government laws and rules and which meets Federal merit system or other requirements, where applicable; and (3) is determined and supported as provided in b. below. Compensation for employees engaged in federally-assisted activities will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the State, local, or Indian tribal government. In cases where the kinds of employees required for the federally-assisted activities are not found in the other activities of the state, local, or Indian tribal government compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness.
 - b. Payroll and Distribution of Time Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the State, local, or Indian tribal government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.
11. Depreciation and Use Allowances
 - a. Grantees may be compensated for the use of buildings, capital improvements, and equipment through use allowances or depreciation. Use allowances are the means of providing compensation in lieu of depreciation or other equivalent costs. However, a combination of the two methods may not be used in connection with a single class of fixed assets.
 - b. The computation of depreciation or use allowance will be based on acquisition cost. Where actual cost records have not been maintained, a reasonable estimate of the original acquisition cost may be used in the computation. The computation will exclude the cost or any portion of the cost of buildings and equipment donated or borne directly or indirectly by the Federal Government through charges to Federal grant programs or otherwise, irrespective of where title was originally vested or where it presently resides. In addition, the computation will also exclude the cost of land. Depreciation or a use allowance on idle or excess facilities is not allowable, except when specifically authorized by the grantor Federal agency.

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- c. Where the depreciation method is followed, adequate property records must be maintained, and any generally-accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for any specific asset or class of assets for all affected federally-sponsored programs and must result in equitable charges considering the extent of the use of the assets for the benefit of such programs.
 - d. In lieu of depreciation, a use allowance for buildings and improvements may be computed at an annual rate not exceeding two percent of acquisition cost. The use allowance for equipment (excluding items properly capitalized as building cost) will be computed at an annual rate not exceeding six and two-thirds percent of acquisition cost of usable equipment.
 - e. No depreciation or use charge may be allowed on any assets that would be considered as fully depreciated, provided, however, that reasonable use charges may be negotiated for any such assets if warranted after taking into consideration the cost of the facility or item involved, the estimated useful life remaining at time of negotiation, the effect of any increased maintenance charges or decreased efficiency due to age, and any other factors pertinent to the utilization of the facility or item for the purpose contemplated.
12. Disbursing Service The cost of disbursing grant program funds by the Treasurer or other designated officer is allowable. Disbursing services cover the processing of checks or warrants, from preparation to redemption, including the necessary records of accountability and reconciliation of such records with related cash accounts.
13. Employee Fringe Benefits Costs identified under a. and b. below are allowable to the extent that total compensation for employees is reasonable as defined in Section B.10.
- a. Employee benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, court leave, military leave, and the like, if they are: (1) provided pursuant to an approved leave system; and (2) the cost thereof is equitably allocated to all related activities, including grant programs.
 - b. Employee benefits in the form of employers' contribution or expenses for social security, employees' life and health insurance plans, unemployment insurance coverage, workmen's compensation insurance, pension plans, severance pay, and the like, provided such benefits are granted under approved plans and are distributed equitably to grant programs and to other activities.
14. Employee Morale, Health and Welfare Costs The costs of health or first-aid clinics and/or infirmaries, recreational facilities, employees' counseling services, employee information publications, and any related expenses incurred in accordance with general State, local or Indian tribal policy, are allowable. Income generated from any of these activities will be offset against expenses.
15. Exhibits Costs of exhibits relating specifically to the grant programs are allowable.
16. Legal Expenses The cost of legal expenses required in the administration of grant programs is allowable. Legal services furnished by the chief legal officer of a State, local or Indian tribal government or his staff solely for the purpose of discharging his general responsibilities as legal officer are unallowable. Legal expenses for the prosecution of claims against the Federal Government are unallowable.

17. Maintenance and Repair Costs incurred for necessary maintenance, repair, or upkeep of property which neither add to the permanent value of the property nor appreciably prolong its intended life, but keep it in an efficient operating condition, are allowable.
18. Materials and Supplies The cost of materials and supplies necessary to carry out the grant programs is allowable. Purchases made specifically for the grant program should be charged thereto at their actual prices after deducting all cash discounts, trade discounts, rebates, and allowances received by the grantee. Withdrawals from general stores or stockrooms should be charged at cost under any recognized method of pricing consistently applied. Incoming transportation charges are a proper part of material cost.
19. Memberships, Subscriptions and Professional Activities
 - a. Memberships The cost of membership in civic, business, technical and professional organizations is allowable provided:
 - (1) the benefit from the membership is related to the grant program; (2) the expenditure is for agency membership; (3) the cost of the membership is reasonably related to the value of the services or benefits received; and (4) the expenditure is not for membership in an organization which devotes a substantial part of its activities to influencing legislation.
 - b. Reference Material The cost of books, and subscriptions to civic, business, professional, and technical periodicals is allowable when related to the grant program.
 - c. Meetings and Conferences Costs are allowable when the primary purpose of the meeting is the dissemination of technical information relating to the grant program and they are consistent with regular practices followed for other activities of the grantee.
20. Motor Pools The costs of a service organization which provides automobiles to user grantee agencies at a mileage or fixed rate and/or provides vehicle maintenance, inspection and repair services are allowable.
21. Payroll Preparation The cost of preparing payrolls and maintaining necessary related wage records is allowable.
22. Personnel Administration Costs for the recruitment, examination, certification, classification, training, establishment of pay standards, and related activities for grant programs, are allowable.
23. Printing and Reproduction Costs for printing and reproduction services necessary for grant administration, including but not limited to forms, reports, manuals, and informational literature, are allowable. Publication costs of reports or other media relating to grant program accomplishments or results are allowable when provided for in the grant agreement.
24. Procurement Service The cost of procurement service, including solicitation of bids, preparation and award of contracts, and all phases of contract administration in providing goods, facilities and services for grant programs, is allowable.
25. Taxes In general, taxes or payments in lieu of taxes which the grantee agency is legally required to pay are allowable.

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26. Training and Education The cost of in-service training, customarily provided for employee development, which directly or indirectly benefits grant programs is allowable. Out-of-service training involving extended periods of time is allowable only when specifically authorized by the grantor agency.
27. Transportation Costs incurred for freight, cartage, express, postage and other transportation costs relating either to goods purchased, delivered, or moved from one location to another are allowable.
28. Travel Travel costs are allowable for expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business incident to a grant program. Such costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combination of the two, provided the method used is applied to an entire trip, and results in charges consistent with those normally allowed in like circumstances in non-federally sponsored activities. The difference in cost between first-class air accommodations and less-than-first-class air accommodations is unallowable except when less-than-first-class-air accommodations are not reasonably available. Notwithstanding the provisions of paragraphs D.6. and 8., travel costs of officials covered by those paragraphs when specifically related to grant programs, are allowable with the prior approval of a grantor agency.

C. COSTS ALLOWABLE WITH APPROVAL OF GRANTOR AGENCY

1. Automatic Data Processing The cost of data processing services to grant programs is allowable. This cost may include rental of equipment or depreciation on grantee-owned equipment. The acquisition of equipment, whether by outright purchase, rental-purchase agreement or other method of purchase, is allowable only upon specific prior approval of the grantor Federal agency as provided under the selected item for capital expenditures.
2. Building Space and Related Facilities The cost of space in privately or publicly owned buildings used for the benefit of the grant program is allowable subject to the conditions stated below. The total cost of space, whether in a privately or publicly owned building, may not exceed the rental cost of comparable space and facilities in a privately-owned building in the same locality. The cost of space procured for grant program usage may not be charged to the program for periods of non-occupancy, without authorization of the grantor Federal agency.
 - a. Rental Cost The rental cost of space in a privately-owned building is allowable. Similar costs for publicly owned buildings newly occupied on or after October 1, 1980, are allowable where "rental rate" systems, or equivalent systems that adequately reflect actual costs, are employed. Such charges must be determined on the basis of actual cost (including depreciation based on the useful life of the building, interest paid or accrued, operation and maintenance, and other allowable costs). Where these costs are included in rental charges, they may not be charged elsewhere. No costs will be included for purchases or construction that were originally financed by the Federal Government.
 - b. Maintenance and Operation The cost of utilities, insurance, security, janitorial services, elevator service, upkeep of grounds, normal repairs and alterations and the like, are allowable to the extent that they are not otherwise included in rental or other charges for space.
 - c. Rearrangements and Alterations Costs incurred for rearrangement and alteration of facilities required specifically for the grant program or those that materially increase the value or useful life of the facilities (Section C.3.) are allowable when specifically approved by the grantor agency.

- d. Depreciation and Use Allowances on Publicly-owned Buildings The costs are allowable as provided in Section B.11.
 - e. Occupancy of Space Under Rental-purchase or a Lease with Option-to-purchase Agreement The cost of space procured under such arrangements is allowable when specifically approved by the Federal grantor agency.
3. Capital Expenditures The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency. When assets acquired with Federal grant funds are (a) sold; (b) no longer available for use in a federally-sponsored program; or (c) used for purposes not authorized by the grantor agency, the Federal grantor agency's equity in the asset will be refunded in the same proportion as Federal participation in its cost. In case any assets are traded on new items, only the net cost of the newly-acquired assets is allowable.
4. Insurance and Indemnification
- a. Costs of insurance required, or approved and maintained pursuant to the grant agreement, are allowable.
 - b. Costs of other insurance in connection with the general conduct of activities are allowable subject to the following limitations:
 - (1) Types and extent and cost of coverage will be in accordance with general State or local government policy and sound business practice.
 - (2) Costs of insurance or of contributions to any reserve covering the risk of loss of, or damage to, Federal Government property are unallowable except to the extent that the grantor agency has specifically required or approved such costs.
 - c. Contributions to a reserve for a self-insurance program approved by the Federal grantor agency are allowable to the extent that the type of coverage, extent of coverage, and the rates and premiums would have been allowed had insurance been purchased to cover the risks.
 - d. Actual losses which could have been covered by permissible insurance (through an approved self-insurance program or otherwise) are unallowable unless expressly provided for in the grant agreement. However, costs incurred because of losses in keeping with sound management practice, and minor losses not covered by insurance, such as spoilage, breakage and disappearance of small hand tools which occur in the ordinary course of operations, are allowable.
 - e. Indemnification Includes securing the grantee against liabilities to third persons and other losses not compensated by insurance or otherwise. The Government is obligated to indemnify the grantee only to the extent expressly provided for in the grant agreement, except as provided in d. above.
5. Management Studies The cost of management studies to improve the effectiveness and efficiency of grant management for ongoing programs is allowable except that the cost of studies performed by other than the grantee department or outside consultants is allowable only when authorized by the Federal grantor agency.

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6. Preagreement Costs Costs incurred prior to the effective date of the grant or contract, whether or not they would have been allowable thereunder if incurred after such date, are allowable when specifically provided for in the grant agreement.
7. Professional Services Costs of professional services rendered by individuals or organizations not a part of the grantee department are allowable subject to such prior authorization as may be required by the Federal grantor agency.
8. Proposal Costs Costs of preparing proposals on potential Federal Government grant agreements are allowable when specifically provided for in the grant agreement.

D. UNALLOWABLE COSTS

1. Bad Debts Any losses arising from uncollectible accounts and other claims, and related costs, are unallowable.
2. Contingencies Contributions to a contingency reserve or any similar provision for unforeseen events are unallowable.
3. Contributions and Donations Unallowable.
4. Entertainment Costs of amusements, social activities, and incidental costs relating thereto, such as meals, beverages, lodgings, rentals, transportation, and gratuities, are unallowable.
5. Fines and Penalties Costs resulting from violations of, or failure to comply with Federal, State and local laws and regulations are unallowable.
6. Governor's Expenses The salaries and expenses of the Office of the Governor of a State, or the chief executive of a political subdivision, are considered a cost of general State or local government and are unallowable. However, for a federally-recognized Indian tribal government, only that portion of the salaries and expenses of the office of the chief executive that is a cost of general government is unallowable. The portion of salaries and expenses directly attributable to managing and operating programs by the chief executive and his staff is allowable. The allowable portion shall be determined by the Federal cognizant agency and the Indian government representatives on a reasonable basis.
7. Interest and Other Financial Costs Interest on borrowings (however represented), bond discounts, cost of financing and refinancing operations, and legal and professional fees paid in connection therewith, are unallowable except when authorized by Federal legislation and except as provided for in paragraph C.2.a. of this Attachment.
8. Legislative Expenses Salaries and other expenses of the State legislature or similar local governmental bodies such as county supervisors, city councils, school boards, etc., whether incurred for purposes of legislation or executive direction, are unallowable.
9. Underrecovery of Costs Under Grant Agreements Any excess of cost over the Federal contribution under one grant agreement is unallowable under other grant agreements.

APPENDIX B

**OVERHEAD DETERMINATION
AND ALLOCATION
PERCENTAGE OF DIRECT LABOR COSTS METHOD**

APPENDIX B

IDENTIFICATION, RATE DEVELOPMENT AND ALLOCATION OF OVERHEAD

Overhead is the one cost element most frequently misunderstood and absent from public agency costs. This section defines overhead costs and the various methods used to identify, track and allocate these costs. The Commission believes that overhead is a significant factor and that it is essential that public agencies record and allocate their costs to fairly reflect the total cost of performing public projects. It is not intended that public agencies be required to recover all their overhead costs but that overhead costs reasonably borne by public projects be allocated to these projects.

Overhead includes all costs except:

Labor performed at the site and directly charged to any end cost objective (including other than public projects) including a pro rata share of payroll taxes and related employee benefits, such as workers' compensation, group insurance, holiday and sick leave, and similar "fringe benefits." As discussed previously, an end cost objective is a pool, center or activity established for the accumulation of the direct cost of performing fundamental government services. Labor charged to an end cost objective should be traceable to the finished goods or services performed.

Materials, supplies and subcontracts actually consumed on and directly charged to any end cost objective, including related freight, sales or use tax and handling/carrying charges if appropriate. Materials and supplies charged to an end cost objective should be traceable to the finished goods or services provided.

Equipment costs directly charged to any end cost objective. Equipment costs charged to an end cost objective should be traceable to the finished goods or services provided.

Overhead costs represent economic resources that are employed for common or joint purposes benefiting several end cost objectives and are not identifiable to an individual end cost objective. The challenge is to achieve an equitable allocation of overhead costs to these various end cost objectives of the public agency.

Public agencies shall calculate two overhead rates:

Unit overhead rate

Government-wide overhead rate

Unit overhead is defined as all costs incurred by an organizational unit, such as a public project unit, department, division or section, which are not directly attributable to any end cost objective whether it be a public project or not. These costs include personnel costs, materials, supplies and subcontracts and equipment costs not directly attributable to any end cost objective. As was discussed in Section III, unit overhead must be developed for public project units and organizational units performing public project work.

Government-wide overhead is defined to include all costs of a public agency not associated with organizational units performing services which support all end cost objectives of the government entity (see below).

The unit and government-wide overhead rates must be developed on an annual basis. These rates should be developed prior to the fiscal year and applied to the productive hourly rate as discussed in Section III.

A. UNIT OVERHEAD

Unit overhead is made up of personnel costs, materials, supplies and subcontracts, equipment usage and facilities costs that are not identified as direct costs. As was stated in Section II, unit overhead rates shall be developed for public project units and any other organizational units whose employees may perform work on public projects.

1. Cost Components

Components which shall be included in the calculation of unit overhead include, but are not limited to, costs incurred within the organizational unit related to:

Administration

Accounting/Finance

Clerical Assistance

Facilities

Rental Costs (Depreciation of facilities purchased or constructed by a public agency is not required by the Commission.)

Utilities

Insurance

Data Processing

Direct Labor Not Charged to Direct Activities

Materials and Supplies Not Charged to Direct Activities

Under-realization of Labor and Equipment Rates

Unit overhead components shall not be included in the government-wide overhead.

2. Tracking of Unit Overhead

The tracking of overhead costs can be performed in two ways. Overhead can be determined through the utilization of a formal cost accounting system. This system allows for the identification of such costs as salaries and indirect materials and supplies as overhead costs, and records these costs to management overhead codes. Alternatively, cost finding studies can be performed. A cost finding study, a less precise method of overhead determination, is usually performed on an annual basis and generally involves taking available financial accounting data and determining the value of overhead pools through various estimation techniques.

APPENDIX B

a. Public Project Unit

As discussed in Section II, a public project unit's personnel shall record and account for a full work day. This enables the public project unit to track and record time spent on overhead activities and unassigned time on an actual basis. As well, the public project shall record equipment usage costs, subcontractor costs, materials, supplies and subcontracts, and facilities costs to overhead codes when not identifiable to a specific project. Thus, the public project unit accounts for all of its costs, whether they are direct costs or overhead. The public project unit will use the resulting data to develop its unit overhead rate.

b. Organizational Unit Performing Public Project Work

Personnel working for an organizational unit whose primary goals include the performance of routine maintenance work and/or other general government work are not required to account for a full work day. However, these employees must record all hours of work performed on public projects. This organizational unit shall develop a unit overhead rate through an annual cost finding study which distinguishes direct costs for end cost objectives from indirect (overhead) costs.

3. Rate Methodology

a. Public Project Unit

Exhibit B-1 presents an overview and an example of how a unit rate for a public project unit should be developed. Direct labor dollars (represented by "A") are used to allocate overhead costs ("B" and "D") to all end cost objectives including public projects, preferably through a fully-loaded hourly rate.

b. Organizational Unit Performing Public Project Work

Exhibit B-2 presents an overview and an example of how a rate for an organizational unit performing public project work might be developed. Since a full cost accounting system often is not in place, the unit must:

Determine which employees are direct employees who work exclusively on end cost objectives.

Allocate non-personnel costs to direct or indirect (overhead) activities.

Direct labor dollars are then used as above to allocate overhead costs through a fully-loaded rate.

4. Overhead Allocation

The departmental (organizational unit) overhead rate of public project units and organizational units performing public project work shall be applied to the appropriate productive hourly rate. See Section II for a more detailed discussion.

Public Project Unit Overhead Rate Development

The total budget for a public project unit can be subdivided as follows:

A = Productive hourly labor dollars charged to end cost objectives, including public project codes.

B = Productive hourly labor dollars charged to unassigned time code(s) and overhead code(s).

C = Other direct costs.

D = Other overhead costs charged to unit overhead code(s).

E = A + B + C + D = Total unit budget.

Generally, overhead rate development should be performed at the beginning of the fiscal year to forecast the overhead rate for the upcoming fiscal year:

Overhead rate as a percentage of direct labor dollars = $\frac{B + D}{A}$

EXAMPLE

In the fiscal year 1984, the Building Division of the Central School District, which includes Main Street School, forecasted its budget to be allocated as follows:

- A = \$250,000 of productive hourly labor dollars expected to be charged to end cost objectives, including public project codes.
- B = \$5,000 of productive hourly labor dollars expected to be charged to an unassigned code.
- C = \$1,666 of materials and supplies expected to be charged to various end cost objectives, including public projects.
- D = \$70,000 of overhead costs remaining.
- E = \$326,666 representing the total budget of the Division.

The calculation of the Building Division overhead rate is as follows:

Unit overhead rate as a percentage of chargeable direct labor = $\frac{B + D}{A} = \frac{\$75,000}{\$250,000} = 30\%$

A 30% unit overhead rate should be applied to the productive hourly rate of all Building Division employees (see Section III).

Organizational Unit Performing Public Project Work
Overhead Rate Development

The total budget for an organizational unit performing public project work can be subdivided as follows:

- A = Direct labor force (including fringes).
- B = Other personnel costs.
- C = Other costs charged to public project codes.
- D = Other costs allocated to other end cost objectives.
- E = Other costs allocated to overhead activities.
- F = A+B+C+D+E = Total unit budget.

At the beginning of the fiscal year, the unit considers which employees constitute the direct labor force (A) that works directly on end cost objectives. Through various estimating processes, the unit allocates other costs between B and E.

$$\begin{array}{l} \text{Overhead rate as a} \\ \text{percentage of} \\ \text{labor dollars} \end{array} = \frac{B + E}{A}$$

EXAMPLE

The 1984 budget of the Maintenance Department of Central School District, which performs maintenance work and occasional building projects, is as follows:

Personnel costs (including fringes)	\$800,000
Materials for building projects	50,000 (=C)
Other materials and supplies	<u>100,000</u>
	<u>\$950,000</u>

The Department performs a study and determines that \$700,000 (=A) of the personnel costs represents the cost, including fringes, of the maintenance work force. The remaining \$100,000 of personnel costs (=B) represents clerical, administrative and supervisory personnel. Of the \$100,000 in other costs, the Department performs another study and determines that \$60,000 (=D) represents maintenance costs, while the remaining \$40,000 (=E) represents a variety of cost items which support the Department as a whole.

$$\begin{array}{l} \text{Overhead rate as a} \\ \text{percentage of} \\ \text{direct labor dollars} \end{array} = \frac{\$100,000 + \$40,000}{\$700,000} = 20\%$$

Thus a 20% overhead rate should be applied to the productive hourly rate of Department employees who work on building projects.

B. GOVERNMENT-WIDE OVERHEAD

Government-wide overhead represents costs incurred by the support functions of the governmental entity which are not associated with an organizational unit performing end cost objectives. As was stated in Section II, government-wide overhead rates shall be determined by each public agency.

1. Internally Developed Government-Wide Overhead Rates

Public agencies shall utilize an internally developed government-wide overhead rate. The rate methodology shall be documented and an adequate audit trail provided.

a. Cost Components

The government-wide overhead rate shall include but not be limited to costs associated with the functions shown below to the extent that they are not included in specific unit overhead rates:

Payroll Department

Procurement/Purchasing Department

Legal Function

Central Administrative Function

Accounting/Finance/Budget Function

Data Processing

Insurance (whether self-insured or premiums are paid to an agency)

Public Relations

Vehicle Pool

The government-wide overhead rate may exclude the costs associated with the legislative and judicial branches of the public agency.

b. Rate Development

The public agency shall develop the government-wide overhead rate of the public agency using direct labor dollars to allocate these government-wide overhead costs in a manner similar to the allocation of unit overhead.

APPENDIX B

2. Government-Wide Overhead Rate

Where a government-wide cost allocation plan has been prepared under the auspices of OMB Circular A-87 or other government-wide rate methodologies, the public agency may utilize the overhead costs or rates developed in lieu of an internally developed government-wide overhead rate, as described in this manual. The Commission recognizes that public agencies may consider these rates imprecise or inappropriate. It is acknowledged that, in developing these rates, some costs are not included because they are considered "not allowable." Thus, the rate may not recover all costs associated with the program. In contrast, an argument could be made that the rates are calculated to recover the costs of government-wide overhead which would occur whether or not the specially funded program was undertaken. In this instance, the rate would be considered too high. In acknowledging these arguments, the Commission wishes to identify the issues but still allow the use of these rates as a reasonable alternative for the calculation of government-wide overhead.

3. Overhead Allocation

The government-wide overhead rate shall be applied to the appropriate productive hourly rate after the unit overhead has been applied. See Section II for a more detailed discussion.

APPENDIX C
COMMISSION RULINGS

APPENDIX C

Commission Rulings

1. Monterey County Letter of 9/18/85

- a. When a local agency elects to become subject to the cost accounting policies and procedures manual, these policies and procedures will apply to all departments.
- b. Project estimates shall be based on estimated actual costs. (This question arose because many counties utilized free labor through the criminal justice system, which can greatly reduce total actual costs.)
- c. Place on the January 15, 1986, meeting agenda development of an overhead factor which can be applied to contractor bids. There are certain fixed costs local agencies bear in administering a project (inspection fees, purchasing, county counsel, etc.). Some feel that, to ensure a fair comparison of internal versus external costs, an overhead factor should be added to contractor costs.

2. Accounting and Bidding Interpretations

- a. Q: Can a local agency disqualify or exclude certain contractors from the Qualified Contractors List required pursuant to Public Contract Code Section 21204(a)? Reasons for disqualification would include the following:

- 1 Contractor does not meet local agency's affirmative action requirements.
- 2 Contractor has not performed adequately on past projects.

A: Agencies may disqualify contractors from the qualified contractors list required pursuant to Public Contract Code Section 21204(a).

- b. Q: Must a local agency: (1) notify contractors pursuant to Public Contract Code Section 21204(b) if the contractor is believed not to have the skills, credentials, or experience to perform the work? (2) consider bids submitted if the agency believes the contractor does not have the skills, credentials, or experience to perform the work?

A: (1) If a contractor is on the qualified contractors list (21204 a), the contractor must be notified by the agency of public projects for which he is licensed to perform. (2) All bids received from qualified contractors must be considered.

- c. Q: Public Contract Code Section 21205 provides that, in cases of great emergency, and when repair or replacements are necessary to permit the continued conduct of the operation or services of a public agency, the governing body by majority vote may proceed without adopting plans and giving notice for bids to let contracts. In addition, this section also provides that the governing body may delegate to the appropriate agency manager the power to declare an emergency. Does this delegation also give the manager the authority to proceed with repair or replacements without approval of the board?

A: In addition to delegating the authority to the agency manager to declare an emergency, the governing board may also delegate authority to the manager to proceed with repairs or replacements without approval by the board.

- d. Q: Do the alternative bidding procedures apply only to public projects as defined in Public Contract Code Section 21002(c) or can they be used for the following types of items:

- (1) Maintenance work to be performed by contract?
- (2) Purchases of heavy equipment?
- (3) Purchases of material?

A:

- (1) The alternative bidding procedures are not applicable to maintenance work as defined in Public Contract Code Section 21002(d), items 1-4.
- (2) No.
- (3) Yes - if consumed on a public project subject to and defined by the policies and procedures manual.

- e. Q: Does adoption of the alternative bidding procedures by the city council of a charter city supersede the voter-approved charter requirement of bidding out public projects above a specified dollar amount?

A: Charter cities should seek advice from legal counsel on questions concerning the charter.

- f. Background - There are various dollar limits under the Public Contract Code for determining whether a local agency can perform a public project by its force account (e.g., counties with a population of 2,000,000 or more may perform public projects up to \$50,000 and cities may perform public projects by force account up to \$5,000). The alternative bidding procedures, if adopted, allow all local agencies to perform public projects of \$15,000 or less by force account.

Q: If a local agency adopts the alternative bidding procedures to take advantage of the informal bidding procedures, can the agency use the most beneficial dollar limit in determining if the agency can perform the work by force account?

A: It is recommended that the agency seek advice from legal counsel. However, it was generally agreed that, if an agency elects to become subject to the Uniform Public Construction Cost Accounting Act, it will be subject to those dollar amounts.

- g. Q: Public Contract Code Section 21204(b) requires a public agency to notify the appropriate contractors on its qualified contractors list and the appropriate construction trade journals pursuant to Section 21206. In addition, Section 21208 provides that a public project contract shall be awarded to the lowest responsible bidder.

Many local agencies, however, require that a specified percentage of its public project contracts be set aside and be awarded to equal opportunity employers, etc. Are such provisions in conflict with Section 21204(b) and 21208(b)?

A: It was agreed that such requirements and laws are not in conflict with Public Contract Code Section 21204(b) and they should be used in determining if a contractor is qualified for the contractors list.

3. Agency Question (California Valley Community Services District letter of July 2, 1986) need to see letter/ Flat Overhead Rate of 20%

A motion was made to allow all participating agencies, including cities with a population of less than 10,000, to use an optional overhead rate of 20% of all direct costs, in lieu of the overhead rate calculation specified in Section VI of the *Cost Accounting Policies and Procedures Manual*. Under this method, an agency would be allowed to calculate overhead at a rate of 20%, uniformly applied to all direct costs, in lieu of detailed accounting for such overhead costs.

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